

REFERENCE ECONOMICS *for* EVERYMAN

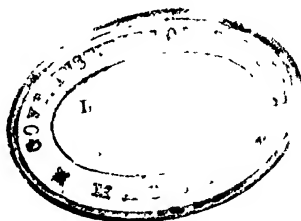
An Introduction to Social Economics

By

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REFERENCE



PREFACE

IN preparing an introduction to social economics for high-school seniors and college freshmen, I have had in mind the report of the Sub-Committee on Social Studies of the National Educational Association, published in 1916. The Committee recommended a three-year cycle of geography, European history, American history and community civics in the Junior High School; to be followed by another three-year cycle of European history, American history, and problems of American democracy, in the Senior High School.

Unquestionably, a thorough training in geography and history is the proper foundation for the study of present-day problems; but, sooner or later, the student must have a grounding in the principles of social economics, if he is to see these difficult questions in their right relations and to understand that the systematic study of them really has a scientific basis.

An introductory volume such as this is not designed to make everyone his own economist, or to have him think that he can solve our baffling social problems out of hand; but rather to give the student an interest in this important and difficult science and to lead him on to further study after his days of schooling are over.

To this end, I have tried to present the economic life of man in its proper setting as part of a broader social life and movement, with its historical background and its foreshadowings of change in time to come. Here is, therefore, not merely a static photograph or cross-section of economic conditions as they are to-day; but a sort of moving picture of a

growing organization, which has come up from small beginnings and will continue to grow and develop, although, very likely, along the same old lines. The plan is not of any man's devising; and the end no man can foresee.

I must crave indulgence of my fellow teachers for having left out things which I should have put in, and for having put in things which I should have left out. However, such deficiencies may be made up by the use of other text-books, and a book of collateral readings designed to accompany the present volume.

I wish to thank all the friends who have helped me in the preparation of this book, especially Professor G. O. Virtue, Professor J. E. Kirshman, Professor T. T. Bullock, Dr. C. Kuhlman, Mr. J. Wilbur Wolf, and Mr. Maurice Greer S

J. E. LEROSSIGNO

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ECONOMICS FOR EVERYMAN

CHAPTER I

THE ECONOMIC LIFE OF MAN

Primary Phases of Human Life.—As one considers the great variety that there is among the peoples of the world—Europeans, Americans, Africans, Asiatics, Australians—with all their differences in race, color, language, religion, customs and what not, one can see that it is quite impossible to reduce them all to a common denominator or to find a single key that will unlock all the mysteries of humanity. And yet, amidst all this complexity, two phases of human life seem to take the first place—the family life and the economic life of man.

Existence and Subsistence.—The reproductive or family life of man is the first condition of his existence; but a close second is the economic, which has to do with the getting of food, shelter, clothing and all the other means of life. Existence, perhaps, goes before subsistence; but without subsistence one does not long exist. So whether life or the means of life are first in the order of nature is a debatable question, even as it is hard to say which is first in the life of birds, the hen or the egg.

Economic Life of Animals.—The lower animals, too, have their economic life, as all must have food and many are

shelter or habitation of one kind or another, and put forth efforts to obtain them. Notable for their industry and thrift are squirrels, beavers and many birds, although ants, bees and wasps surpass all the others in persistent toil, division of labor, architectural ability, provision for future needs, and in their wonderful community life. The ant has long been held up as an example to the human kind. Thus, in the Proverbs of Solomon we read: "Go to the ant, thou sluggard, consider her ways and be wise: which, having no guide, overseer, or ruler, provideth her meat in the summer, and gathereth her food in the harvest."

Direct Production.—It should be noted, however, that the lower animals do all this work with teeth, beaks, claws and other bodily organs; whereas man, somewhat inferior in such equipment, as well as in muscular strength and agility, has invented tools, machines and labor-saving processes with which to accomplish his ends. Thus, the heron fishes with its beak, but man with net or spear or hook, the beaver fells trees with its teeth, man with adze or ax, rabbits and gophers dig with their paws, man with hoe or spade. Man, therefore, because of his superior intelligence, has invented indirect or roundabout ways of doing things, and has the distinction of being the only tool-making animal.

Superiority of Man.—However, it must be admitted that man has certain physical advantages over the beasts in that he stands erect, has greater brain capacity, and a wonderful hand with an opposable thumb, which is better suited to creative work than the paws or claws or hoofs of any other animal. What could man do, with all his intelligence, if he had flappers like a seal or hoofs like a horse?

Economic Life of Primitive Man.—Even the most primitive men have more power over nature than the highest of the lower animals, although there are savages whose economic life

strikes the civilized observer as scarcely human. For example, the Andaman Islanders, the Australian Bushmen, the Fuegians, and other so-called "lower hunters and fishers," live largely by gathering fruits and nuts, digging roots, collecting shellfish, and devouring reptiles, insects and vermin. They wear little or no clothing; live in caves, or crouch under windbreaks or temporary huts of boughs or palm leaves; they have no spinning or weaving; neither pottery nor metals; no domestic animals except the dog and possibly a few pets; poor canoes and rude tools and weapons of wood, stone or bone. And yet scholars say that these lowest savages of to-day are higher than was man in the old or rough stone age.

Stages of Economic Progress.—From such primitive conditions civilized man has descended, or, rather, ascended; yet it is hard to arrange the various peoples, past and present, in regular ascending scale, as there has been no single line of development common to all. According to degree of civilization, people are often classed as savages, barbarians, civilized and cultured, with several degrees in each class. From the economic point of view, that is, according to the way they get their living, they are usually classed as collecting, hunting and fishing, pastoral, agricultural, handicraft and industrial; although it should not be supposed that all the higher peoples have passed through all the lower stages. No doubt, some have become almost stationary, some have gone backward, and some have skipped one or more of the regular stages.

The Eskimo, for example, could never have become pastoral or agricultural in the frozen desert of northern Canada, where no crops can be raised and where even the reindeer has not been effectively domesticated. The Aztecs of Mexico, who were pretty well advanced in agriculture at the time of the Spanish invasion under Cortez (1540), had probably never been shepherds or herders, as they had not domesticated the

wild sheep, the goat or the buffalo, and there were no cattle or horses in America before the Spaniards came. The Maoris of New Zealand could never have become a pastoral people, as dogs, rats, bats and seals were the only mammals on the islands before the time of Captain Cook, who introduced the pig.

Various Degrees of Culture.—The Australian Bushmen and the Andaman Islanders, as described above, are among the most primitive savages of the present day. The Eskimo may be classed as higher savages in the hunting and fishing stage. The Mohawks and other Iroquois or Six Nation Indians of our colonial days may be called "lower barbarians," as they had considerable agriculture, with pottery, weaving and other handicrafts fairly well developed. The Maoris of New Zealand were further advanced in the arts and may be called "higher barbarians." The Aztecs of Mexico and the Indians of Peru under the Incas were in the agricultural stage when the Spaniards came, and were the most civilized of all the American tribes.

Examples of the Various Stages.—The ancient Israelites in the time of Abraham were distinctly a pastoral people; by the time of David they had settled down in the land of Canaan and had passed into the agricultural stage, although many of them, like the Arabs of to-day, were still wandering shepherds. The ancient Egyptians, Greeks and Romans were civilized and cultured, with agriculture, the handicrafts and the fine arts highly developed. The civilization of China and Japan, fifty years ago, was much like that of ancient Greece and Rome; but now they are rapidly passing into the industrial stage, because of the introduction of modern machinery. England and the United States are good examples of nations in the industrial stage, in which machinery and modern methods of production play the leading part.

Achievements of Higher Savages.—It is easy to underestimate the achievements of savages and barbarians if one does not consider the difficulties they had to overcome. The Eskimo have done well to exist at all in the frozen north, and their tools and weapons of bone, their dome-shaped snow huts, their skin tents and boats, their oil lamps, their clothing and their ways of life in general are marvelously adapted to their grim environment. In fact, civilized men in those regions are obliged to live Eskimo-fashion, and many of the so-called improvements which white men have brought serve only to civilize the natives out of existence. Thus the modern rifle and the steel trap, far more effective than the primitive spear and the snare, tend to exterminate the seals and other animals without which the Eskimo cannot live. Then, too, the white man's dwelling and clothes, as well as his diseases, have been most injurious to the health of the Eskimo and other primitive peoples.

The Indians of the St. Lawrence basin did wonders with their flint implements, and it is not easy to see how their clothing, bows and arrows, snowshoes and canoes could have been improved with the materials and tools available. The birch-bark canoe, for example, was almost perfect in its way, and the most expert boat-builders of the world have scarcely been able to improve upon the Indian model. So, also, the outrigger canoes of the Pacific islanders are the most seaworthy boats imaginable, and their war canoes, carved out of great trees with the help of fire and tools of rough stone and polished jade, are marvels of the boat-builder's art.

The Lower Savages.—The economic life of higher savages such as these is clearly marked, but that of the lowest savages is very primitive, consisting chiefly in finding food much as the lower animals do, with little or no thought of the future. If their food were as abundant as air and water, we should

hardly say that they had any economic life at all, as there would be no scarcity, no effort, planning, management nor economy. Mere eating, drinking, playing, sleeping, breathing and the like are not economic activities, but working and preparing for them are such, especially when provision is made for future needs. The grasshopper of the fable, that ate and danced and sang all summer long, could not be called an economic insect; but the thrifty ant, that built a home and stored up her winter's supply of food, poses as the typical economic creature and a shining example for all time to less provident human beings.

Origin of Economic Qualities.—If we ask why some peoples and individuals are more industrious and thrifty than others, we shall find no answer except that they are born so, or forced to work and save by stern necessity. In the relentless struggle through which the human race has passed, the more energetic, intelligent, inventive, provident and warlike peoples had a tremendous advantage over the rest, survived and multiplied, while the weaker were reduced in numbers, enslaved or exterminated. Thus, the Iroquois Indians, energetic and warlike, and yet cultivating the ground and laying up stores of corn, at one time dominated all the surrounding tribes. To be sure, most of the work was done by women, but the tribes had the benefit of both the warlike and the economic virtues. Similarly, the power of the Aztecs and the Incas was largely based on agriculture, although the mass of the people, who did the work, were practically slaves.

Here we see two main classes of qualities which make for the prosperity and survival of peoples—the warlike and the economic—and three important economic qualities: industry, thrift and organizing ability. Occasionally, a single person is found possessing all these qualities; but more frequently, some

are warlike, some industrious and some have the ability to organize and command.

The Ancient Virtues.—As the ancient civilizations of Egypt, Greece and Rome were based on slavery, industry and obedience were regarded as the virtues of the common people, while wisdom and courage were the virtues of the masters. So also in Europe during the Middle Ages—the lords fought and ruled, while most of the manual labor was done by serfs. In fact, it is often said that man would never have developed the economic virtues which he has to-day, if he had not passed through the hard and cruel school of slavery. This, however, is not altogether true, as some of the most industrious peoples, like the Hindus, have not been trained in slavery; although their caste system, by imposing the duty of labor upon the lower castes, may have had the same effect. But nature, outside of the tropics, is a sufficiently hard taskmaster, and the majority of people, whether slaves or free, have to work for a living and save against a time of scarcity.

Climate and Civilization.—Man probably originated in the tropics, yet the hot climate, coupled with abundance of food, seems to have been unfavorable to the development of civilization. On the other hand, civilization seems to be equally handicapped in the extreme north, where the conditions of life are too hard. So the great civilizations of ancient and modern times have been in the sub-tropical or temperate zones, where nature is neither too bountiful nor too niggardly, where the climate with its changing seasons is stimulating but not too severe, and where man can live, provided he will work and save.

It is interesting to note that the most ancient civilizations of which we have record—in Egypt and Mesopotamia—were in sub-tropical and semi-arid regions, and that irrigation, from the waters of the Nile, the Euphrates and the Tigris, was one

of the most essential arts. The later civilizations of Greece and Rome were somewhat further north, but still in the mild climate of the Mediterranean, and it was not until comparatively recent times that civilization extended to France, Germany, the British Isles and other northern countries. But the industrial civilization of our day, so closely connected with coal, iron and modern transportation, could exist in Alaska, Greenland or northern Russia, if the proper commodities and conditions were found there.

Material Progress.—As one considers the progress of man through the various economic or social stages, one finds that material civilization has consisted chiefly in the abundance and variety of the things that minister to human wants: more and better food, clothing, shelter and means of recreation, together with the buildings, tools, machines, appliances, inventions, processes and methods which help to create such things. And as the means of life have increased in a given region, the tribes or nations of that region have grown populous and powerful, destroying or enslaving their enemies, or driving them into forests, swamps, deserts, mountains or other less desirable corners of the earth.

The Whip of Necessity.—Savages, like children, are naturally idle and improvident, and had it not been for the whip of hard necessity they would never have emerged from their hand-to-mouth existence. Thus steady work and the accumulation of property of one kind and another were and are the two great levers by which man has gradually and painfully raised himself out of the pit of savagery. There are those who question the benefits of civilization and glorify the dawn of humanity as a sort of golden age, but such pessimists ignore the actual conditions of the most primitive society in which, as the philosopher Hobbes pithily said, human life was poor, mean, nasty, brutish and short."

From Savagery to Civilization.—Hunters and fishers, because of their way of living, require a vast area, where they usually obtain a miserable and precarious existence. Under this economy, though supplemented by some agriculture, the whole of North America, north of Mexico, probably contained little more than a million Indians, whose numbers were kept down by a low birth rate and an enormous death rate, due to promiscuous living, war, disease and other conditions of their life. Pastoral peoples are usually more prosperous than hunters, and agricultural peoples still more so, as they have a regular and abundant supply of food. But at the summit of material civilization to-day stand the commercial and industrial countries, like the United States, Great Britain and the rest, where science, machinery, transportation and modern business methods play a great part in production, and enormous populations are supported in a degree of comfort impossible to more primitive conditions. Of course, if the populations of those countries had increased more rapidly than the means of subsistence, there would have been nothing but increasing misery. Fortunately, such has not been the case, as the necessities and comforts of life have multiplied faster than the population; so that, though there are more mouths to feed, there is more for all.

Struggle on a Higher Plane.—Under such conditions of increasing well-being, the old-time conflict has been greatly mitigated and changed from a ferocious life and death struggle for existence and bare subsistence to a comparatively mild struggle on a higher plane for the comforts and luxuries of life, with occasional lapses into barbarism, which make us wonder whether, after all, civilization is more than skin-deep. However that may be, as the necessities of life are fairly well assured, and people have leisure to give to higher things, they seek variety, quality, beauty, art, music, literature, science,

law, justice, courtesy, honor, goodness, and all the amenities and refinements of civilized life

Wealth and Civilization.—History gives us many illustrations of the general rule that civilization is based upon a foundation of material prosperity. The Golden Age of Athens, in the time of Pericles, came after the city had become wealthy through military success and commerce. The Augustan Age in Rome followed a time of rapid expansion, conquest and prosperity. The Revival of Learning in western Europe was closely connected with the commercial achievements of Venice, Genoa, Florence and other Italian cities. English literature of the Elizabethan period was similarly related to the peace and prosperity of Tudor times. Dutch art had a foundation in the commerce of such cities as Amsterdam and Rotterdam. Modern political and religious liberty were nourished, if not born, in the commercial cities of western Europe. Modern art, music, literature and science grew up under the patronage of the rich, and one reason for their relative decline at the present time is that our democracies are not yet able to appreciate the best things.

History and Culture of Families.—The same tendency may be noticed in the history of particular families. While poor and uneducated, they have slight appreciation of works of art and cannot afford to buy them. As they become wealthy, they demand more and better things; while their children and grandchildren are likely to have far better taste in this regard, and may even be creators in some branch of art. Thus, as a rule, the material comes before the cultural and makes it possible.

Material Basis of Culture.—There may be exceptions to this rule, and yet so close is the relation between material and cultural civilization, that the latter may almost be regarded as a by-product of the former, although both are the products of

the unfolding life of man. Nor is it more strange that the spiritual should take root in the material than that flowers should grow in rich soil and quickly wither when the earthy basis is removed. Man is something more than an economic animal, for he is a creature endowed with latent powers of which he is as yet scarcely aware, yet it is through the door of economic progress that the human soul is released and enters upon its inheritance in the spiritual world.

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QUESTIONS AND TOPICS

1. Distinguish between a tool and a machine
2. What is the advantage of indirect or roundabout production? Give examples
3. Why did the aborigines of America not domesticate the sheep, the goat or the buffalo? What of the llama?
4. Why were there no land mammals in New Zealand before the Europeans came? How did the rat arrive?
5. Describe the life of the Eskimo.

- 6 Describe the civilization of the Aztecs and the Incas
7. Explain the decadence of primitive peoples under the influence of civilization
8. Could we have done better than the Indians with the tools which they had?
9. Distinguish between economic and non-economic activities
10. Mention the six tribes of the Iroquois Where did they live?
- 11 Are peoples different mentally as well as physically?
- 12 Is man by nature a working animal? How did he learn to work?
- 13 Has there been any great civilization in the tropics? If not, why?
- 14 Was Hobbes correct in his characterization of primitive society?
- 15 Show the relation between prosperity and civilization
16. What was the population of North America when the Europeans came? Why were there so few people here?
17. If we lost our prosperity, should we lose our civilization?
18. What is civilization? What is progress?

CHAPTER II

OCCUPATIONS

Every Man Has His Occupation.—The importance of the economic life is clearly shown in the fact that all persons, except children and other dependents, have some occupation, profession, or pursuit by which they get their living, whether they be master or man, priest or layman, prince or peasant. Thus, every man has his place in the economic world as in the family, the nation, the race and all the complicated network of human relationships. When we meet a stranger our first question usually is—"Who is he?"—and our next is likely to be—"What is he?"

In the country and the small town there are comparatively few distinct occupations; yet even there we have farmers, stock-raisers, agricultural laborers, herders, general merchants, millers, bakers, saddlers, butchers, blacksmiths, carpenters, cobblers, plumbers, tailors, barbers, hotel and restaurant people, livery and garage keepers, druggists, physicians, lawyers, bankers, teachers, clergymen, and others—altogether a surprising diversity of occupations, not to mention itinerant laborers, agents and traders of many kinds.

General Service.—The most typical citizen of the small town is the general merchant, who sells everything from molasses to mowing-machines, and whose store is a sort of community club; but most of the business and professional men are similarly general and unspecialized. The "doctor" is often physician, surgeon and dentist all in one; the lawyer may have a general legal practice, and do some real estate and

insurance business on the side; the banker is general financial agent and adviser to everybody, the clergyman ministers to members of every denomination; the editor sells news and opinion to people of every shade of politics, the teacher is professor of every science and a local encyclopedia of universal knowledge.

Census of Occupations.—In the large towns and great cities there is, of course, far greater variety and specialization, because of the limitless growth of human wants and the countless ways of providing for them. A glance at the report of the Fourteenth United States Census on this subject shows that in the year 1920 the population of the continental United States, excluding Alaska, was, in round numbers, 106,000,000, of whom no less than 42,000,000 were engaged in gainful occupations. Of these, 11,000,000 were engaged in agriculture, forestry and animal husbandry, in the extraction of minerals, 1,000,000, in manufacturing and mechanical industries, 13,000,000, in transportation, 3,000,000, in trade, 4,000,000; in public service, 800,000, in professional service, 2,000,000, in domestic and personal service, 3,500,000, and in clerical occupations, 3,000,000.

Under each of these heads there are many subdivisions. For example, under "professional service" are listed actors, artists, sculptors, civil and mining engineers, clergymen, lawyers, musicians, physicians and surgeons, teachers, trained nurses; and a number of semi-professionals, including abstractors, notaries, justices of the peace, fortune tellers, hypnotists, spiritualists, healers, theatrical owners and officials, officers of lodges and societies, and charity workers. Besides, as everybody knows, there are many kinds of physicians, lawyers, teachers, and the rest, with subdivisions of subdivisions, and new professions springing up all the time, so that a list is out of date the minute it is finished.

Increasing Specialization.—The development of the teaching profession well illustrates the increasing specialization of modern life. Not many years ago, the village schoolmaster, often the parson as well, taught pupils of every age and grade in all branches of education, from the alphabet and the multiplication table to Latin, Greek and mathematics. Now we have specialists even in the primary school; still more in the high school; and in the university their name is legion.

A typical state university, like the University of Nebraska, has no less than ten colleges—Agriculture, Arts and Sciences, Business Administration, Dentistry, Engineering, Law, Medicine, Pharmacy, the Graduate College and the Teachers' College. Then, too, there are numerous departments in the various colleges, all with their special teachers and investigators.

A Glance Backward.—Accustomed, as we are, to such specialization and complexity in every field, it is hard to imagine the conditions of life in primitive society; yet we cannot understand the present except in relation to its background in the past. Our savage ancestors probably knew little of specialization in occupations, except in so far as men had one set of duties, as hunting and fighting, and women another, such as the care of children, cooking and the making of clothing. But as men rose in the scale of culture there was increasing division of labor, as in the case of some of our Indians, who had their skilled makers of flint weapons and implements, bows and arrows, canoes, pipes, ornaments and the like. Often, primitive craftsmen gave most of their time to such work, being cheerfully supplied with the means of life by the hunters and warriors whom they served.

The Ancient Israelites.—Pastoral and agricultural peoples have a greater variety of occupations than hunters, and, therefore, a larger and more regular supply of the necessities of life. The ancient Israelites were at first a pastoral people, later

agricultural, with the usual craftsmen and traders. The patriarchs Abraham, Isaac and Jacob lived much as Arab sheiks do to-day, though surrounded and influenced by the higher civilizations of Mesopotamia, Egypt, Phœnicia and, later, Greece and Rome. After long wandering in the wilderness, they settled down in Palestine as agriculturists, although many of them were still shepherds, and others, no doubt, engaged in the caravan trade with the surrounding nations.

Thus, the Israelites had a greater diversity of occupations than we should expect among merely pastoral and agricultural people. The Bible refers to Cain as a farmer, Abel as a shepherd, Nimrod as a mighty hunter, Jubal, a minstrel, Tubal Cain, a smith. David, the national hero, was shepherd, hunter, warrior, poet and minstrel. Among other occupations are mentioned the baker, butler, brickmaker, carpenter, weaver, potter, tanner, fuller, silversmith, coppersmith, money changer, mariner, pilot, calker, merchant, soldier, jailer, lawyer, physician, magician, priest, levite, prophet.

Occupations in Greece and Rome.—Ancient civilizations, especially those of Babylonia, Egypt, Greece and Rome, were largely based on slavery, which multiplied occupations, as the slaves catered to the increasing wants of the ruling class. Wealthy Greeks and Romans took pride in having many slaves, not agricultural and domestic servants only, but craftsmen, musicians, dancers, painters, sculptors, poets and even philosophers. The Roman philosopher Epictetus was a slave, and the great Greek philosopher and teacher, Plato, is said to have been sold into slavery by his former pupil, the younger Dionysius, Tyrant of Syracuse.

In Plato's Republic (about 350 B. C.), mention is made of wholesale and retail merchants, painters, sculptors, embroiderers, actors, musicians, poets, players, dancers, contractors, nurses, orators, tutors, professional teachers, physicians and

soldiers, besides the usual craftsmen. Elsewhere we read of miners, quarrymen, brick and cement makers, foresters, sawyers, fishmongers, fruiterers, vintners, shipwrights, skippers, cartwrights, barbers, paper and pen-makers, booksellers, acrobats, doll-makers, jewelers, merchants of various kinds, and bankers. Such a list, though incomplete, shows that Athens was at that time a city of great wealth, well advanced in the handicraft and commercial stage of material civilization, upon which was based the most remarkable artistic, literary and philosophic culture that the world has ever seen.

Ancient Rome, too, was well supplied with craftsmen, merchants and professional people, as might be expected, considering its vast wealth, derived from all parts of the great empire. About the time of Christ, more than eighty colleges or occupational associations existed in Rome, and there were doubtless more later on. Of metal workers alone there were smiths (bronze), ring-makers, silversmiths, goldsmiths, gold-beaters, money-changers, blacksmiths and mirror-makers. There were many traders connected with the supply of food, such as grain merchants, bakers, butchers, cooks, spicers, confectioners, fruit-sellers, wine-sellers, oil merchants, and others. Then, too, there were musicians, poets, actors, gladiators, porters, bathhouse-keepers, barbers and the like, furnishing luxuries and amusements for their wealthy patrons.

Such a list of occupations gives but a faint idea of the enormous wealth of Rome, derived from tribute levied upon the provinces rather than from trade. Rome was not a manufacturing city, returning goods for goods, but the political center of the Empire, whose most notable contributions to the world were government, law and peace.

Economic Life in the Middle Ages.—After the fall of the Roman Empire in the fifth century A. D., because of the invasion of the Goths, Vandals, Franks, Angles, Saxons and other

German tribes, western Europe reverted to barbarism; but after a long struggle of about a thousand years, countries like Italy, Spain, Portugal, France, Germany and England found themselves once more in the upper handicraft and lower commercial stage, although the glory that was Greece and the grandeur that was Rome were little more than a memory and echo of bygone days. The handicrafts flourished, as may be seen in the great cathedrals of that time, their fine wood, stone and metal work, and the beginnings of modern sculpture and painting.

An extraordinary number of occupations existed in all towns of any size. In London, in the year 1422, when the population was about 35,000, there were about 100 craft guilds or masters' unions. On Corpus Christi Day, 1415, a celebration took place in York, a city of about 12,000 people, in which no less than fifty guilds took part, representing about eighty occupations. All the familiar crafts were there, with some not so well known to-day, as armorers, chandlers, lorimers, spurriers, bowlers, fletchers, shearmen, mercers, fullers, pewterers, spicers, horners, pinmakers, scrivener, pardoners, dubbers, marshals, and cordwainers. It is interesting to note how many family names are derived from occupations, among which the Smiths and the Millers seem to be the most numerous and important.

Merchant and Craft Guilds.—During the Middle Ages, practically all merchants and craftsmen were members of guilds, and could not carry on business as individuals or free traders, except at fairs or in other special cases. These guilds, otherwise known as fraternities, fellowships, companies or mysteries, were associations of master merchants or craftsmen, in this respect differing from the modern labor union, which is an association of employees. In those days, the laborers were subordinate members of the guilds, or servants, whether as apprentices or journeymen.

Apprentices were the indentured servants of some master, usually bound to a merchant or craftsman for seven years. After the completion of his apprenticeship, a young man became a journeyman or day laborer, working for wages and having the right to work for different masters and to go from place to place. After spending some time as journeyman, a man who had sufficient capital could set up shop for himself as a master and a regular member of the guild.

Decline of the Guild System.—The guild system, which prevailed in Europe for hundreds of years, from about the eleventh to the seventeenth century, when it was in decline, was very useful in its day as a social organization and a means of encouraging high standards of craftsmanship and business integrity. They were, also, closely connected with the municipal government of cities: in a sense, they were the municipal government. Interesting survivals of this system are still found in European cities, notably in London, where the Lord Mayor, aldermen and councilmen of the *City* are still elected by the members of the livery companies or guilds. The twelve great livery companies of London are the Mercers, Grocers, Drapers, Fishmongers, Goldsmiths, Skinners, Merchant-Tailors, Haberdashers, Salters, Iron-Mongers, Vintners, and Clothworkers.

European Colonies.—America was settled when Europe was still in the agricultural and handicraft stage of industrial development, although the power of the guilds had begun to decline. Artisans of many kinds came to the New World, where, at first, they had little opportunity to ply their crafts. On the frontier of civilization the pioneer had to be jack-of-all-trades; although, as soon as the country was settled, towns and cities arose and economic development went on, until practically all the occupations of Europe were represented here, and some others as well. Thus, in so far as the European settlers are

concerned, American economic development is quite similar to that of the rest of the western world, especially in Australia, New Zealand, South America, and other European colonies. The Indians, of course, had their own economic systems and, like other aborigines, have found it hard to adapt themselves to European ways.

The Industrial Revolution.—The Industrial Revolution of the late eighteenth and early nineteenth centuries, which began in England with the invention of labor-saving machinery in spinning and weaving, together with the steam-engine, presently spread to America, and certain regions passed, in the course of time, from the handicraft and lower commercial to the industrial and higher commercial stage, with all the complicated machinery, vast plants, systems of transportation and communication, elaborate processes and methods, and the extreme division of labor so characteristic of this latest phase of industrial evolution.

Times and Customs Change.—This process of economic evolution, through which all progressive countries seem destined to pass, involves increasing differentiation or specialization, with elimination of things not adapted to the changing times. Thus the old-fashioned spinners, weavers, pinmakers, pewterers, chandlers, and scriveners find their occupations almost, if not altogether, gone; while new occupations, as those of telegraphers, electricians, linotypists, typists and stenographers have arisen, and ancient trades have radically changed their ways. Columbus would not know what to think of a modern Atlantic liner, and Benjamin Franklin would feel strange in a Philadelphia newspaper office. Certainly, a cordwainer of former days would be quite lost in an up-to-date shoe factory, where the materials pass through some one hundred and thirty-seven distinct operations and almost as many hands from the cutting to the retouching and packing. So specialized has the

making of shoes become that the old race of shoemakers, as distinguished from cobblers, is well-nigh extinct.

Advantages of Division of Labor.—The craftsman of the passing generation may deplore such changes, which, like the removal of old landmarks, makes him feel like a stranger in a strange land, yet there can be no progress without change and, in the main, the results of it seem to be good. At any rate, the division of labor, by allowing a worker to give all his time and attention to his particular work, develops extraordinary expertness, saves time, and greatly increases the joint product of labor and capital. Thus, division of labor, with the aid of modern machinery and business organization, has made it possible for a shoe factory employing a hundred workers to manufacture many times the number of shoes which the same number of shoemakers could have made in the old-fashioned way.

Prosperity of the Modern World.—Therefore, although the population of the western world has increased enormously since the Industrial Revolution, the means of life—food, clothing, shelter and all that—have increased more rapidly than the population, so that material prosperity is greater and more widely diffused than ever before in the history of the world. Also, in many, if not most lines, labor has become far less arduous than formerly, the hours of labor have been reduced, and the wage-earners have had more time to spend in rest, amusement, study and other pleasures formerly enjoyed by the rich alone. It is often said that the modern laborer is the slave of the machine; but it would be more accurate to say that he is the master of the machine, by which he exploits the earth and wins the prize of leisure, without which civilization is impossible.

True, there are disadvantages connected with industrial progress, as with all things human, in that trades have been de-

stroyed, the spirit of craftsmanship has been weakened, men have been condemned to the monotony of single operations, afflicted with new occupational diseases, and, in various ways, have paid the price of progress. And yet, when all the debits and credits are set down, the account is balanced, and comparison is made with less favored peoples and with former times, most citizens of the western world will agree that the game has been well worth the candle.

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QUESTIONS AND TOPICS

- 1 Make a list of all the occupations in your community
- 2 Explain the increase of specialization
- 3 Give the advantages and disadvantages of specialization, with illustrations from business and the professions
- 4 Explain the origin of specialization.
5. Where did the Greeks and Romans obtain their slaves?

6. Make a complete list of the occupations mentioned in the Bible.
- 7 Describe the merchant and craft guilds of the Middle Ages
- 8 Make a list of names derived from occupations
- 9 Mention some of the early English fairs Describe a typical fair.
- 10 Distinguish between a medieval guild and a modern labor union.
- 11 Explain the origin of our municipal government
- 12 Why was the American pioneer a jack-of-all-trades?
- 13 Show how machines have superseded the handicrafts
- 14 Note the changes which are now taking place in your community.
- 15 Is the worker the slave of machinery?
- 16 What is the "Western World"?
- 17 Has the Industrial Revolution taken place everywhere?
- 18 What is the opinion of Mahatma Ghandi as to industrial progress?

CHAPTER III

THE EXPLOITATION OF THE EARTH

The Earth and the Age of Man.—Geologists tell us that man was on the earth thousands, if not millions of years ago; but historians agree that civilization is comparatively recent, and that the earliest inscriptions on the Egyptian monuments date back only a few thousand years before Christ. Of course, civilization must be far older than the monuments; but allowing for that, the best authorities say that the period of civilization is but a small fraction of the age of man, and that for untold generations he lived much as the lower animals do, without utilizing or exploiting the earth in any effective way.

The earth was there during all those years, waiting, as it were, for the master who should turn its vast resources to his own advantage; but the master was still a child in knowledge, experience and power, eating his meat and vegetables raw, picking up food as best he could, finding shelter in dens and caves, fighting with wild beasts, and scarcely able to contend with the destructive forces of nature, not to speak of making them his obedient slaves. So the earth remained untamed, while man was passing through his long infancy, until, full-grown in body and mind, he could enter upon his inheritance.

Primitive Inventions and Discoveries.—But in the course of time, by virtue of his superior intelligence, man obtained control over nature and his own fate such as the lower animals never had nor could have, and the story of his gradual conquests is the history of civilization. Nor should it be forgotten that the greatest and most basic inventions and discoveries

were made in prehistoric times by men whom, in our civilized conceit, we call savages or barbarians. It is a long list, including the invention or discovery of the club, the spear, the lever, the trap, the net, the fish-hook, the needle, the sling, the bow and arrow, the boat, the sail, the rudder, the wheel, the plow, the domestication of plants and animals, the kindling of fire, cooking, spinning, weaving, the making of pottery and bricks, the smelting of metals. By such means as these man has raised himself far above the rest of creation and has obtained dominion over plants and animals, land and sea and air.

Invention and Progress.—These inventions have been with us so long that the memory of man runneth not to the contrary, and it is impossible to realize what they must have meant to the people who first used them. Before the use of fire, men ate their food raw. Before they used clubs and sharp sticks, they had to fight, with hands and teeth, an unequal warfare against the beasts, or to take refuge in flight. Before the distaff or the needle, only rude plaiting was possible and cloth was unknown. Before the fish-hook and the net, men had to catch fish with their hands or pick them up along the shore. Before the boat, the keel, the rudder and the sail, navigation was impossible. The wheel and the cart greatly aided transportation and commerce, although pack-animals, including man, have carried burdens from the earliest times until the present day. Wild animals were probably first domesticated as pets, later as cattle, beasts of burden and barnyard fowl. Pottery and bricks revolutionized cooking and building; the smelting of metals gave man tools and weapons of bronze and iron in place of wood and stone.

Inventions of Later Times.—Strange to say, relatively few new inventions of the first rank were made from the dawn of history until the latter half of the eighteenth century. In the second list may be mentioned the wheelbarrow, the wind-

mill, glass, gunpowder, the mariner's compass, movable type, the microscope, the telescope, soap, matches, clocks, watches, and a number of others—notable inventions, no doubt, though not so fundamental as those of prehistoric man. Moreover, most of these improvements were made in comparatively recent times, as ancient civilization was surprisingly barren of invention.

Influence of Slavery.—Perhaps this comparative lack of industrial invention in ancient times may have been due to the influence of slavery. Slaves were plentiful and cheap and the wages of free labor were very low, so that there was slight advantage in the introduction of labor-saving devices. However, great progress was made in the art of war, to which some of the greatest men applied themselves, and remarkable engines were constructed for beating down the walls of cities, for throwing huge stones and arrows and otherwise carrying on war by land and sea. Then, too, the ancients understood the building of roads: the Romans, especially, united their empire by means of paved roads and wonderful stone bridges, which were used for both military and commercial purposes.

Fortunately, few, if any, of the great inventions have ever been lost. On the contrary, they have been gradually improved, while now and then additions have been made, so that economic progress has been cumulative and man's patrimony has been handed down and increased from generation to generation. That, in fact, is the great function of education, by means of which the younger generation begins where the elder leaves off.

The Middle Ages.—However, the invasion of the Roman Empire by the Germanic tribes, in the fifth century A. D., was so destructive to the ancient civilization that western Europe did not recover for a thousand years. It was the revival of ancient learning, at the close of the Middle Ages, that gave

inspiration to the men of the new age and helped them to create the modern world. The Revival of Learning, the Protestant Reformation and the discovery and exploration of America were the three great features that mark the close of the Middle Ages, and it is hard to realize the tremendous influence which they had upon the thought, feelings and actions of the men of those days. Three new worlds were discovered—the world of ancient thought, the world of religious liberty, and a new continent full of mystery and boundless possibility.

Exploration and Settlement of the New World.—During the early modern period the enterprising spirits of western Europe, especially in Spain, Portugal, France, Holland and England, set themselves the task of exploring, settling and exploiting the New World, and the far East made accessible by the discovery of the route around the Cape of Good Hope (1498). Presently, South America was divided between Spain and Portugal, and North America between Spain, France and England, while Holland had a few settlements in both divisions of the continent, and large possessions in South Africa, India and Malaysia.

New Social Forces in Operation.—All this, together with the increase in the supply of gold and silver from America, the rise in world prices, the breakdown of feudalism, the growth of cities, the increase of political liberty and many other contributory causes, brought about great changes in the political and intellectual life of western Europe. Domestic and foreign commerce expanded; manufactures developed; agriculture was improved; wealth and population increased; great advances were made in the physical sciences; and, in general, the way was prepared for the political and economic revolutions of the eighteenth century.

The Industrial Revolution.—The American Revolution, the French Revolution, and other political changes of that cen-

ture were of great importance; but still more important was the Industrial Revolution begun in the eighteenth century by the invention of machines for spinning and weaving, and continued in a long series of inventions and discoveries which have made the industrial world of the present day quite different from that of medieval or ancient times.

The Age of Machinery Begins.—Until the middle of the eighteenth century, most of the work in farming, mining, transportation and manufacturing was done by hand, much as in ancient times; but to-day most of it is done by machinery, and the change from the ancient handicrafts to modern machinery is what we call the Industrial Revolution. The very word “manufacture” originally meant to make by hand, but its present meaning is far different from that, and a modern factory, originally “manufactory,” is a place buzzing with machinery, although the hand and brain of man have by no means been displaced.

The New Inventions.—One of the first of the new inventions was Kay’s flying shuttle (1738), which increased the speed of weaving so much that spinners could hardly supply enough yarn for the weavers. Then, about 1767, Hargreaves invented the “spinning jenny,” later improved by Arkwright and Crompton; so that the output of the spindles was so greatly increased that the weavers could not keep pace with the spinners. After 1784 came the “power loom,” invented by Cartwright, a clergyman, restoring the balance between weaving and spinning, so that, with the various improvements that were made from time to time, both processes advanced together, and the manufacture of cottons and, later, of woollens was completely revolutionized. An essential part of this movement was the invention of the “cotton gin,” in 1793, by the American, Eli Whitney, which greatly increased the supply of raw cotton.

Machine Methods and Processes.—The Industrial Revo-

lution began in England, and in the manufacture of cotton; but it soon spread to other countries and other industries, and is still going on. A long series of inventions are inseparably connected with it. Such are the steam engine (1769), the steam hammer, the steamboat, the locomotive engine, the macadamized road, the sewing machine, the electric telegraph, the telephone, the typewriter, dynamite, the oil motor, the gasoline motor, the Bessemer process, the open-hearth process, the airplane, the wireless telegraph—and many other machines, methods and processes by which man has tremendously increased his control over nature and his efficiency in the exploitation of the earth.

Population.—The degree of exploitation of the earth by man is indicated roughly by the population supported under varying industrial conditions and standards of living. The earliest men in the collecting stage were necessarily few in number. Hunting and fishing enabled them to have more and better food, clothing and shelter, pastoral and agricultural life increased the density of population, while in the commercial and industrial age the vast populations have more and better things to use than the people of any of the preceding periods.

Malthus on Population.—These facts seem to contradict the theory of the great English economist, Malthus, who held that population tends to increase faster than the means of subsistence. Apparently, the means of subsistence have in the past usually increased faster than the population, with the result that people in the higher economic stages have a higher standard of living than those in the lower. Yet the fact remains that population does tend to increase as the means of subsistence increase, though usually at a somewhat slower rate.

Ancient and Modern Populations.—What the human population of the tropics was in the earliest times can hardly

be guessed, but there must have been very few people in the temperate and frigid zones. However, as man passed into the agricultural and handicraft stage, large populations arose in certain favored regions. Such cities as Nineveh, Babylon, Tyre, Thebes, Carthage and Rome must have had millions of people tributary to them. The empire of Alexander probably had a population of about 50,000,000; and the Roman Empire at the death of Augustus had about the same number.

After the fall of Rome, the ancient economic system broke down and the population of those regions fell off disastrously, scarcely recovering in a thousand years. At the time of Columbus, the population of Europe was probably less than 60,000,000, but by 1800 it had increased to about 170,000,000; and to-day it is about 420,000,000. In 1800, the population of the world was probably not more than 600,000,000, to-day it is estimated at 1,700,000,000. Certainly, the economic progress of mankind since the Industrial Revolution has been extraordinary, especially in the western world.

Exploitation of America.—That the growth of population in modern times has been due chiefly to the opening up of new lands and to improvement in the arts, is well illustrated by the history of America since the arrival of the Europeans. When Columbus came, the region now occupied by the United States and Canada was a vast area of forest, plain and mountain, over which roamed small bands of Indians, as many as could live, year in, year out, by hunting, fishing and a little agriculture.

The Iroquois or Six Nation Indians were among the most advanced of the northern tribes, but Morgan estimated that New York, with its area of 47,000 square miles, never supported more than 25,000 Indians. Moreover, they did not live exclusively by hunting and fishing, as their staple food was maize or Indian corn, and they cultivated also the melon, the

squash, the pumpkin, beans, sunflowers, fruits, and tobacco, though they had no domestic animals except the dog.

Inadequacy of Primitive Tools and Weapons.—Whatever the native ability of the Indians may have been, they could not do much with such rude implements and weapons as they had. The Iroquois used knives of flint for skinning deer and similar purposes, and by means of stone chisels, with the help of fire, they felled trees, made dug-out canoes, and hollowed wooden vessels. They had stone mortars for pounding corn, grinding mineral paint, roots and bark. They knew something of pottery, tanning, weaving, embroidery, dyeing, and the making of houses, clothes, canoes, baskets, and various implements and weapons.

The Pawnees, the Sioux and other Indians of the mid-western plains were on a somewhat lower cultural level than the Iroquois; the Algonkians, Eskimo and other northern tribes, still lower; the Pueblos and Aztecs and the Indians of Peru, much higher; and there are remarkable ruins of a more ancient civilization in Yucatan, Guatemala and elsewhere. But America was for the most part a wilderness when the white men came—a vast game preserve where a few hunting and fishing tribes obtained a precarious living. Under the circumstances, it was no wonder that the Europeans regarded America as a sort of no-man's land, belonging by right to those who could occupy, settle and utilize its resources to the best advantage.

Partition of America.—The Europeans came, and presently America was divided among them, even as Africa has been partitioned in our day. Spain had at first the lion's share, and Portugal a great area in South America; but after a time France preëmpted the St. Lawrence, Ohio and Mississippi valleys, while England had a large strip of settlements on the east coast, and Holland a strategic position on the Hudson

River. If the French had realized the potential value of their holdings from Quebec to New Orleans, including Canada and the Mississippi Valley, united by a wonderful waterway, they would not have let it go; but, fortunately for the English-speaking peoples, like Esau of old, they despised their inheritance, failed to defend Canada, and sold Louisiana for a mess of pottage. Then, after the Mexican War, the United States acquired still more territory, until she extended from the Atlantic to the Pacific, and from Mexico and the Gulf to the Canadian border.

Pioneer Work.—The clearing of the forest was the great task of the early settlers, who could obtain most of their food, clothing, shelter and fuel from the forest itself. Naturally, the clearing of the land involved much loss and waste: fish, game and fuel became relatively scarce, millions of trees were destroyed, not merely for lumber and potash, but to get them out of the way: often the soil itself, being burned over, lost much of its fertility. But where hunting, fishing and lumbering could feed its tens of thousands, agriculture, aided by the handicrafts, could support millions, and, in the course of economic evolution, the lesser good had to give way to the greater gain.

Population of Civilized Countries.—To cut a long story short, the exploration, settlement and industrial development of the United States is epitomized in the growth of population and wealth. According to the first census, the population was almost 4,000,000 in 1790; according to the fourteenth census it was over 105,000,000 in 1920, exclusive of Alaska and our other possessions. Now the country is pretty well settled, although by no means so densely populated as many other countries. China, with its preserved ancient civilization, still in the agricultural and handicraft stage, has a population of about 17 per square mile; Japan, 320; India, 158; European

Russia, 62.5; Germany, 311; France, 197; the United Kingdom, 374; Belgium, 658. In considering such figures, it is well to remember that the more populous countries have obtained much of their food supply from Russia, America, Argentina, Australia, New Zealand and other less populous regions, as well as from the more intensive cultivation of their own lands.

Natural Resources of America.—Although the population of the United States is barely six per cent of the world's population, her natural resources are, relatively, far greater. She produces 20 per cent of the world's wheat, 45 per cent of the coal, 60 per cent of the pig-iron, 67 per cent of the cotton, and 70 per cent of the crude petroleum. Also, 16 per cent of the world's telegraph lines and 34 per cent of the railways are in the United States, and in many other respects she is to be compared to the rest of the world rather than to any other single country.

This does not mean that the resources of other countries are nearing the point of exhaustion, but merely that the English-speaking people of America have been so fortunate as to occupy a peculiarly favored part of the earth, and that they have made much of their opportunities. The British "Empire" or "Commonwealth" contains vast areas of good land in Canada, Australia, New Zealand and Africa, where there is room for millions of prosperous people; and the same may be said of Brazil, Argentina and other parts of South America. Russia has greater natural wealth than the United States, but it is not effectively used and the people are very poor. China and India swarm with people living on the verge of starvation, yet their resources are not fully developed.

Human Powers and Activities.—Evidently, something more than natural resources are required to make a great and prosperous nation—the personal qualities of the people have

much to do with that. The western Europeans, with their freedom, enterprise, education, leadership, experience, resources, situation and other advantages, natural and acquired, live far better than Asiatics and Russians; although it must be admitted that much of their food supply comes from abroad. This means that they are not self-supporting, but dependent on foreign trade for many of the necessities of life. One wonders what they will do if the new countries, increasing in population, cease to export food and other raw materials.

Miracles of Modern Machinery and Methods.—Civilization originated in Asia or northern Africa, but in recent times the western world has had several important points of advantage: in the discovery of new lands, the advance of science, and the invention of labor-saving devices of every kind. We read in the *Arabian Nights* of genii or slaves of the lamp and the ring, who wrought miracles for their fortunate masters; but modern men have machines and processes which do for them what could not be done by the manual labor of millions of slaves. For example, the railways of the United States carried in 1918 freight equivalent to more than 400,000,000,000 ton-miles, an average of 4,000 tons carried one mile for every inhabitant—an amount of work which all the men and horses of the country could not do in the old-fashioned way. And when we think of all the steam and water-power of the world, the complicated machinery, the chemical and electrical processes, and the marvelous organization and system of business, we begin to realize what wonderful tools man has at his command and what a help they have been to him in the exploitation of the earth. ◊

Progress and Population.—In view of the economic life of man, past and present, it is evident that a sort of race has been going on between progress and population, in which the former has usually kept ahead, with the result that man's

standard of living has improved and he has found time to give to art, literature, music, religion and, in general, to the finer things of life. There are those who prophesy, however, that such gratifying progress cannot always go on, inasmuch as the agricultural and mineral resources of the earth, being strictly limited, must sooner or later be exhausted, when the wretched survivors of a prodigal race, having sucked their orange dry, must subsist as best they can upon the rind

The Economic Outlook.—Fortunately, the outlook is not quite so bad as this, and we may be able to cross this bridge when we come to it. We should not assume that the world's population will continue to increase at the same rate as during the past hundred years. As to economic progress, there is no telling what improvements in agriculture may yet be made, what electricity may yet accomplish, what use may be made of the now wasted water-power and the heat of the sun, nor what science may do to tap the immense reservoir of molecular energy, thus indefinitely postponing the day of doom.

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QUESTIONS AND TOPICS

- 1 Give various estimates of the age of man
- 2 Give the approximate dates of the earliest Egyptian monuments
- 3 Show the importance of the early inventions How did men live before they had them?
- 4 Mention the chief tools and weapons used by the American Indians
- 5 Trace the origin and history of the dog
- 6 Study the development of the cart
- 7 Show the relation of education to progress
- 8 What is a revolution? Mention a number of revolutions of different kinds
- 9 Why did the Industrial Revolution begin in England rather than in some other country?
- 10 Mention the chief American inventions and inventors
- 11 Explain the remarkable inventiveness of Americans
- 12 Mention the chief modern inventions of other countries
- 13 What is exploitation?
- 14 Show the relation of invention to the growth of population
- 15 Describe the mode of life of the Iroquois and other American Indians
- 16 What European languages are now spoken in America?
- 17 Will the United States ever be as densely populated as Europe?
- 18 Why is Russia relatively unprogressive?
- 19 What will western Europe do when the new countries cease to export food supplies?
- 20 Are the resources of the United States inexhaustible?
21. Show the need of conservation.

CHAPTER IV

THE ORIGIN AND FUNCTION OF PROPERTY

Property an Extension of Personality.—As the Apostle Paul truly says, “we brought nothing into the world, and it is certain that we shall carry nothing out”; and yet, between the cradle and the grave, people who have anything are much concerned about their food and clothing, their playthings and household goods, their lands and buildings, their animals and implements, their stocks and bonds, notes and credits, and all the other tangibles and intangibles which attach to them and to which they are attached—in short, their belongings, possessions or property. And people who lack these things, the poor, are much concerned because they have them not.

So close, in fact, is the relation which obtains between me and mine, personality and possessions, that neither can be the same without the other. Property is to man what the nest is to the bird, the honeycomb to the bee, the burrow to the fox, the shell to the hermit crab. Without it man is a fugitive and a vagabond on the earth, or else a slave to some one else. The ownership of property, as an expression of the instinct of self-preservation, is deep rooted in human nature, contributing much to security, independence, self-respect and the normal development of human personality.

Savages Have Little Property.—Civilization is characterized by an enormous accumulation of property, private and public; savagery by the almost total lack of it, although even the lowest savages have the sense of property and some few possessions. The lower animals, also, seem to have a feeling

of ownership, as one can see by trying to take a bone from a dog or by robbing a bird's nest. Some animals, too, such as squirrels, ants and bees, not only have a fixed habitation but considerable stores of food, which they will defend, when necessary, with great courage. Some savages have not much more property than they. An Australian bushman, for example, will own little more than a few rude tools and weapons, a few clothes, and a little red ochre for painting his body. Many of the American Indians, even, though classed as "higher hunters," had but few belongings, which could easily be carried in a single pack; and the movable property of a whole tribe, in many cases, could be easily taken to new hunting grounds.

An Inventory of a Nation's Property.—The relative fixity and stability of modern civilization is largely due to the accumulation of property, real and personal. Consider, for example, all the land of the United States or of any prosperous community, with houses, barns, fences, drains, irrigation works, office buildings, factories, roads, railways, canals, docks, mines, quarries, and all other "immovables" or "real estate." Then there are "movables," including clothing, furniture, animals, machinery and tools, vehicles, rolling-stock of railways, ships, raw materials, stock in trade and other "chattels" or "personal property." Some of this is the property of the federal government, the states or other public bodies; but most of it is individual or private property.

Origin of Private Property.—In speculating about the origin of private property, of which there are no records, as it was long before the dawn of history, it is well to keep in mind the foregoing distinction between real estate and personal property, or, rather, between land and other property, as the former has often been held in common and the latter very seldom. Dwellings are rather hard to classify. Nowadays,

being relatively fixed or permanent, they are usually classed as real estate, but in early times they were often quite temporary and movable, like the Indians' wigwams or tepees.

When, however, savages or barbarians lived in caves, under cliffs, or in hollow trees, their habitations were decidedly fixed, like land; but even so, it is probable that a degree of private ownership was the rule rather than the exception. The cliff dwellers of Colorado, New Mexico, and Arizona, for example, had, probably, common rights in the general cliff shelter, but individual or family rights in the numerous apartments. Similarly, the Long House of the Iroquois was a sort of communal dwelling for a group of related families, with a number of fires for warmth and cooking, and a larger number of apartments for the several families. Evidently, the very thought of private property is inseparable from that of family life.

Instinctive Sense of Property.—Private property in personal effects—clothes, ornaments, weapons, domestic animals, tools—appears to prevail everywhere, even among the lowest savages, and it is safe to assert that it has existed in some degree since man was man. Even children, in their play, show an instinctive tendency to take and keep the things they like; and savages, in this as in other respects, are like children. "Finders keepers" is a motto that well expresses these grasping ways, which are an expression of the basic instinct of self-preservation. A dog with a bone, a cat with a mouse, a hunter with a deer—all display the same tendency to take what they want and defend their claim against all comers. And when all are ready and willing to defend their claims, even the most selfish are forced to respect the claims of others, and a sort of public opinion arises, giving sanction to claims and transforming them into recognized rights, thus making a clear distinction between mine and thine.

Property in Relation to Creative Labor.—And when to

the mere finding and taking of things was added more or less of effort, sacrifice, and creative activity, and the lapse of a certain time during which the holder or maker remained in undisturbed possession, the feeling of ownership and the disposition to defend it must have been greatly strengthened. This is not to say that property originated in force, merely, although the ability and the will to fight for one's own must have had something to do with the recognition or sanctity of rights. In fact, the rights of women to pottery and other articles made by them, are commonly recognized among savages and barbarians; not so much, apparently, because they are prepared to fight for them, as because they feel, and others acknowledge, that they have a right to what they have made with their own hands.

"Personal property," then, is well named, as it has an intimate relation to the owner, being appropriated or inherited, or made by him, carried with him from place to place; and frequently buried with him for his use in the spirit world. Thus, we often find food, clothing, weapons, ornaments and even dogs buried in Indian mounds and other burial places; and valuable treasures have been found in Egyptian tombs.

Origin of Property in Land.—It is generally admitted, then, that personal property has existed from time immemorial; but it is a popular belief, supported by many scholars, that land was originally held in common and that private ownership in the gifts of nature arose in a later and more degenerate age, through force and fraud, or because it was found to be necessary for the better utilization of land and for the general good. In support of this view, attention is called¹ to early village communities in England, Russia, Germany, India and elsewhere, in which arable land, pasture and woodland were held in common, although homesteads and personal property were privately owned.

The Early Village Community.—In the typical village community, the peasants lived in the town or village, where they had private, or, rather, family property in dwellings and chattels; although, frequently, several related families lived in a single hut, with the domestic animals. The arable land near the village was held in common, usually divided into strips, and apportioned, from time to time, to the several families. The pasture and woodland, also, was held in common, the families having the right to pasture a certain number of animals there. Such village communities still exist in India, Russia and other countries, and it has been supposed that they existed in all the countries of western Europe at the beginning of the agricultural stage, if not every other part of the world. Besides, it is often stated there was no private or even family property in land before the agricultural stage was reached.

Criticism of the Communistic Theory.—But some recent studies of this subject, especially those of Lewinski, appear to show that the communistic theory is a fiction, based upon incomplete investigation of a rather late stage of industrial development. The whole subject, indeed, lends itself to guess-work, but there is good reason to think that in most countries private ownership of land came both before and after common control and ownership.

The new theory pictures the order of events about as follows. Originally, when people were few and land abundant, there was no property in land, as it was free to all, like water, air and sunshine. Later, as population increased and food was harder to find, individuals and families occupied certain areas by a sort of squatter or preemption right, while whole clans or tribes claimed exclusive rights of hunting or fishing in large regions, to which long custom and warlike ways gave them a more or less acknowledged and respected title. Such was the case among our Indians, who recognized certain areas as held

by certain tribes, while in some cases individuals or families had their special hunting grounds.

Private or Family Rights to Pasturage.—So, also, pastoral tribes had their "ranges," within which particular families may have had special rights similar to those of modern private property. Thus, the Book of Genesis states that Abraham and his nephew Lot had so many flocks and herds that the land was not able to bear them and the herdsmen quarreled. They agreed, therefore, to part company and to pasture their sheep and cattle in certain regions, as though they had the right to divide the pasture land as they pleased, while the Canaanites occupied the agricultural land and lived in towns or cities.

Private Property in Agricultural Lands.—But it was the beginning of agriculture, according to this theory, which established private property in land upon a firm basis, because the men and women who cleared and cultivated a piece of land and otherwise "improved" it, naturally claimed exclusive possession of both land and crop, especially as there was nothing to prevent others from following their example. So long as there was land for all, such a claim seemed natural and reasonable, differing in no essential respect from that of the hunter, the shepherd, or the builder of a house. Hence, we find property in land recognized by ancient law, as the law of Moses and the code of Manu.

Canaan Taken by the Israelites.—In the law of Moses we read: "And ye shall divide the land by lot for an inheritance among your families." In another place the daughter of Caleb is described as receiving a field as a gift from her father, with, also, springs of water, showing that private property in land was well established among the early Israelites, or, at least, when the early books were written. Another passage recognizes the right of the owners to buy and sell land,

although it was to be restored to the original possessor or his heir in the year of jubilee.

Custom of Ancient India.—The code of Manu was a collection of the laws and customs of India prepared some time after the beginning of the Christian era, but doubtless containing many ancient rules. In that code we read: "The sages declare a field to belong to him who first cleared away the timber and a deer to him who first wounded it."

Summary of Lewinski's Theory.—To summarize this theory: the earth was originally no man's land; later it became the customary hunting ground or pasture of a tribe, with numerous cases of individual or family ownership; still later it was largely appropriated by people who could utilize it or improve it in some way, and all these preliminary stages usually came before the typical village community.

But, as population increased, and it was found that the best land had been taken by the first comers, the poorer holders and the landless men, dissatisfied, began to limit and control the right of free occupation, later they insisted on the right of the community to take land from one holder and give it to another; and, finally, they provided for periodical division, as in the typical village community, which seems to have existed among all the Indo-Europeans and many other peoples at a certain stage in their economic development.

The Village Community Breaks Down.—But the communistic stage, however useful it may have been in ancient times, has long since broken down in most countries, and private property in land has been restored. The great trouble with the common lands seems to have been that nobody was sufficiently interested in making the best use of them, as there was no profit to be made by so doing. Thus, in England, the common lands were cultivated in a very careless and wasteful way, and the pastures were injured by being overstocked. The

enclosure of the commons, which went on, legally and illegally, during several centuries, injured many of the peasants and tended to concentrate the ownership of land in a few great estates, but it did much for the improvement of agriculture and the general development of the nation.

The Magic of Property.—The advantages of private ownership of land are even more clearly marked in France, where there are, as in America, a large number of small proprietors. This was noticed long ago by the celebrated English traveler and writer, Arthur Young, who, referring to the tireless industry of the French peasant, said: "The magic of property turns sand to gold."

A Vital Part of the Social Order.—The history of property has varied greatly in various countries, and yet, through it all, one can see that the institution of private property is not an artificial creation or invention, but the outcome of a long process of growth and adaptation to the needs of man. It is an institution of great antiquity, the roots and branches of which are inextricably entwined and involved with those of all other institutions, especially the family and the state, and extend to every part of the social organization. That is not to say that it must remain forever unchanged, but merely that it is a vital part of the present social order, which could not be uprooted without serious damage, if not complete ruin, to the whole fabric or structure.

Views of Saint Thomas.—The social advantages of private property have long been recognized, but no one has stated the case better than the great theologian and philosopher of the thirteenth century, Saint Thomas Aquinas, whose opinions on the subject seem to-day to be as valid as when they were written. Private ownership, according to Thomas, is necessary—first, because of the interest which the owner takes in the management of his property; second, because it tends toward a

better organization of production; and third, because private industry is carried on with less of that wrangling and conflict which results when property is held in common. However, he strongly held the Christian view that no man should regard the fruits of industry as wholly his own, but should share them with his neighbors in the spirit of brotherhood and friendship.

Will Private Property Endure?—Doubtless, there are many defects in the social organization, as in the human body, some of which are due to the family, some to the church, some to the state, and some to the institution of private property. But, for all that, property has had much to do with the social life of man in past ages, and is likely to play its part for years to come. Without it there would have been slight incentive to work, to create, to invent, to improve, and what we call progress and civilization could hardly have existed in a propertyless world.

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QUESTIONS AND TOPICS

1. What is property?
2. Proudhon says: "Property is theft" Discuss the proposition.
3. Is there property among the lower animals?

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- 4 Make an inventory of your property
- 5 Make a rough inventory of the property of your community.
- 6 Distinguish between real estate and personal property
- 7 Show the relation of property to the family
- 8 Is there an acquisitive instinct?
- 9 Show the relation of labor to property in the products of labor
- 10 Explain the origin of property in land
11. Describe the Russian "mir," the German "mark," or some other village community
- 12 Describe a medieval English "manor "
- 13 What is a "squatter" in the United States? In Australia?
- 14 Did the Jewish Patriarchs have property in land?
- 15 As population increases the landless begin to demand common property in land Is this true?
- 16 Make a report on the enclosure of common lands in England
- 17 What is the "magic of property"?
18. Who was Saint Thomas Aquinas? Tell about his life and work
19. Explain the advantages and disadvantages of private property
20. Is it likely that private property will some day be abolished?

CHAPTER V

THE STRUCTURE OF ECONOMIC SOCIETY

Human Association.—When people unite or associate with one another in family life, play, war, religious observance, education and other relationships, they naturally form themselves into families, occupations, clubs, churches, schools, political parties and other groups more or less overlapping or intertwined. Thus, in any large community, there is a kind of tissue or network of organizations, connections and activities, somewhat similar in structure and function to an animal or vegetable body or organism

Organism Versus Organization.—Some scholars have been so strongly impressed by this resemblance that they have thought of society as an organism, and its various groups as organs, all performing their activities or functions for the benefit of the social body as a whole. But the word organism should not be thus applied, for an organism is a physical body composed of organs and cells connected with one another by tissue, whereas society is an organization or group of organisms, physically separate from one another, free to move about from place to place, and united only in the bonds of thought, feeling and common purpose.

Wheels Within Wheels.—And yet, human societies have their characteristic structure or arrangement of the groups and individuals of which they are composed. The larger groups have smaller groups within them, and these again have still smaller groups, as wheels within wheels, until we reach the individual persons who are the ultimate units or social atoms.

The Organization of an Institution.—For example, a large religious society, such as the Presbyterian Church, has its General Assembly, Synods and Presbyteries, within which are many local "Churches" in various places. Any one of these has its own internal organization: its minister, members and adherents, its session and board of trustees, its committees and societies, its Sunday school and choir, and, possibly, its religious factions and social cliques. Similarly, all other organizations have their internal structure and functions, and their external relations with other organizations; and the sum total of such groupings and activities constitutes human society. Evidently, its structure is highly complicated, although the twofold organization of the family and of economic life, for existence and subsistence, is the foundation of it all.

Geographical Basis of Industry.—In trying to picture or visualize the economic structure or organization of a given region, one can see that it follows, broadly, the geographic or physical features of the country. Thus, a map showing the chief industries of the United States indicates mixed farming, fishing, manufacturing and commerce as especially prominent in the North Atlantic States; farming and animal husbandry in the middle west; cattle and sheep raising in the far west; lumbering in the south, the Alleghany Mountains and along the Canadian border; cotton in the southern states; subtropical fruits in Florida and southern California; coal mining in Pennsylvania, Ohio, Illinois and other states; gold, silver and other metalliferous mines in the Rocky Mountains; iron ore in Pennsylvania, Ohio, Tennessee, Missouri, Minnesota; manufacturing wherever there is convenient access to coal, iron, raw materials and a good market; commerce at all centers of transportation, where the streams of raw material and finished products meet and flow.

Types of Rural Organization.—Such a bird's-eye view gives

the main lines of economic structure, and we find, on closer inspection, that every region has its distinctive characteristics, together with many features which are common to all. Rural organization is everywhere very different from the urban; but the farmstead and country village of New England are not very different from those of Ohio, Iowa and Michigan. Rural conditions on the great plains vary somewhat from this type, and still greater differences may be noticed in the south, the Rocky Mountain region, and the Pacific Coast, especially where corn, cotton, cattle or fruit are the ruling crops.

As everybody knows, the farms of the New England type are in compact blocks scattered over the countryside, each with its more or less isolated house and barns not very far from the road. There are numerous small hamlets at cross-roads, with here and there a country village or a considerable town. This arrangement obtains in most parts of Canada; although, in the older French parishes, the land is divided into long, narrow strips, and the farmsteads are rather close together along the main road. On the continent of Europe, on the other hand, the farmers or peasants commonly live in villages, surrounded by large tracts of land with scarcely a single house.

The Typical American Farm.—Notwithstanding the growth of tenancy and the persistence of large estates in some places, the typical American farm is one of medium size, owned and operated by a single proprietor with the help of his family and more or less of hired labor, especially in the busy seasons. The organization of such a business is relatively simple; yet even here there is more or less of system, together with the twofold classification of persons and things which runs all through our industrial society.

Personnel of the Farm.—As to the organization of persons on the farm, there is the customary separation between men's work and women's work, and if there are several men and

several women, the division of labor is carried still further. Usually, the men do most of the outside work, while the women have chiefly household duties; although, frequently, the women help with the milking and even in the harvest field, while the men occasionally lend a hand with household work. Very important here, as in other lines of business, is the division of the working day: the early hours for milking, care of cattle, horses and chickens; the main part of the day for work in the field; the evening again for "chores"; while within the house the order of business is chiefly determined by the time for sleep and meals.

Land and Equipment.—As to the organization of things, there is more of systematic arrangement than one might think: the dwelling with its various rooms and furniture; the stables, barns and sheds; the fields and arrangement of crops; the fences and drains; the vehicles, tools and machinery; the horses, cattle and poultry; and, finally, the proper combination and adjustment of everything according to the best farming practice. In fact, farm management is a difficult business, and is becoming more so, demanding farmers more competent than those of any previous generation.

Persistence of the Small Farm.—Notwithstanding the application of scientific methods to farming, especially in recent years, the typical American small farm more than holds its own in competition with the large farm and cattle ranch. One would think that the large farmer, with his ample capital, good credit, skilled management, division of labor, and all the other economies of large-scale enterprise, would be able to produce more cheaply than the small farmer, and thus drive him out of business. However, the economies of small farming, especially the farmer's personal interest, his attention to detail and incessant labor, seem to outweigh all the advantages of large-scale production. At any rate, the small farm,

when not too small, seems to be in a very strong position; while there is a tendency to divide large farms into smaller units, and the concentration of capital, so prominent in other fields, has not yet gone very far in agriculture.

Large-Scale Production.—In the other primary industries, large-scale production seems to be gaining ground. Many fishermen still operate on a small scale, under individual ownership, or a simple form of partnership, but there are also large companies which do a considerable proportion of the fishing in the ocean and the Great Lakes. The taking of furs is largely done by individual trappers; but many, if not most of them, are under the wing of the Hudson's Bay Company and other large corporations.

Prospecting for gold, silver and other metals is usually carried on by individuals or partners, but as soon as any considerable amount of capital is required, the business is almost always organized as a corporation with a large number of stockholders. Quarrying and coal mining are apt to be large-scale businesses—witness the companies engaged in the quarrying of Indiana limestone and the great anthracite coal companies of Pennsylvania. Lumbering is a large-scale industry, although there are many small companies, as well as individuals cutting timber for the mill.

Organization of Urban Society.—With these rather notable exceptions, the organization of rural economic society is relatively simple, and the striking complexity of modern industry is found chiefly in the great cities. However, the medium-sized town—with its stores and factories, banks and office buildings, railways and tramways, water service and sewers, gas and electricity, movies and ten-cent stores, its main street and its residential sections—has most of the features of the great city, though in miniature. It is, therefore, a good place in which one may observe the organization of urban society

without being confused by the vastness and complexity of a metropolis.

Business Units Large and Small.—Here we find, as in a great city, that the small merchants and manufacturers are far more numerous than the large, but that a large part of the total business is done by a few great concerns, usually organized as partnerships or corporations. A corner grocery, a drug store, a bakery, a plumber's shop, a barber shop, and the like, may be carried on very well under a single proprietor, assisted by the members of his family or by employees; but as the business grows and the strength and wealth of the owner are insufficient to the task, he is apt to take a partner as a joint owner, to share the risk and responsibility and, of course, to share in the profit as well.

The Single Proprietor and the Partnership.—The single proprietorship, whether in farming, mining, merchandising, manufacturing, banking, or other kinds of business, has its advantages in that the owner can manage his own affairs without advice or interference, but it has its disadvantages in that a business man often needs advice and help such as the members of his family cannot give. To be sure, the partnership has its disadvantages when the partners quarrel and yet find it hard to separate, or when one of the partners makes a serious mistake, as by incurring debts for which both are liable. And yet, in many cases the advantages far outweigh the disadvantages, especially when there is a congenial union between men of character, capacity and capital, who are stronger together than both would be apart.

Liability of Partners.—The unlimited liability of partners for the debts of the firm is probably the chief disadvantage of the partnership, especially in large enterprises, for the risk increases as the business grows. In former times, in both Europe and America, there were large firms with many part-

ners, some active, some relatively inactive; but it was found that the risk of loss was too great, especially for the "sleeping partners."

Unlimited Liability.—Public attention was called to this many years ago by a number of serious failures in which all the partners were held liable for the debts of the firms or companies. A notable case was the failure, in the year 1878, of the City of Glasgow Bank, a joint stock company with many shareholders, but organized under the principle of unlimited liability, as in the case of a partnership. The depositors and other creditors of the bank lost nothing, but the shareholders lost about \$30,000,000, and many small shareholders were ruined.

Limited Liability.—Such painful experiences tended to discredit large partnerships and companies organized under the principle of unlimited liability, and to popularize the newer forms of business corporations, in which the stockholders were liable, in case of failure, for no more than the amount for which they had subscribed. Practically all business corporations are now organized in this way, so that a single person may own stock in a dozen corporations, without incurring any further liability. That is to say, if one or more of these corporations should fail, the stockholder would lose what he had invested or subscribed, but no more; except in the case of a banking corporation, in which the stockholder is usually liable for the amount subscribed and as much more.

The Modern Business Corporation.—Were it not for this simple provision, it would be exceedingly risky for a person to own even a few shares in several companies, as the failure of any one of them might make him liable, as a partner, to the full extent of his fortune. Under the old plan, it would be better for an investor to "put all his eggs in one basket"; but under the new plan, it is possible for him to distribute his

investments and thus reduce the risk. In fact, the great business corporation, with its enormous capital obtained from many investors, would be very rare, if not quite impossible, under the old plan of limited liability.

Corporate Securities.—Ordinarily, the business corporation has but one kind of stock, entitling the holder to a voice in the management in proportion to the number of his shares, and to a share in the profits in the same proportion. Frequently, there are two kinds of stocks—common and preferred—the preferred stock entitling the owner to a fixed dividend, say, 7 per cent, before the common stockholder gets anything. Then, too, business corporations often issue bonds; but the bondholder is a mortgagee, not a stockholder, and, as such, has no voice in the management.

Control of Corporations.—The control of a business corporation is in the hands of those who own or vote a majority of the stock, that is, 51 per cent. Frequently, the people in control do not own a large per cent of the stock, but exercise control through the “proxies” or authority to vote sent them by other shareholders who have confidence in them. Probably, most corporations are honestly managed, and yet business men often say that they would not own stock in a company which they could not control. They say this because the controlling stockholders sometimes misuse their power, whether by allowing themselves exorbitant salaries, by awarding contracts to themselves at excessive prices, by manipulating the stock, or by sacrificing the minority stockholders in other ways.

Use and Misuse of the Corporation.—This indicates that the business corporation, though indispensable to the conduct of large affairs, is far from perfect. Too often it is a device for inducing people to invest in worthless stocks, often called “blue sky,” because of the cheerful spirit of promoters and purchasers at the outset. Too often it is a means by which

great combinations or "trusts" are able to suppress competition and control prices, if only to a limited extent. Also, there is something impersonal about the doings of a corporation, in that it follows the rather rigid rules of business, which resemble the inexorable laws of nature, or the laws of the Medes and Persians, "which alter not"

For this reason, it is often said that a corporation has no soul. And yet,*the very fact that business corporations have established rules and keep strict account of everything, compels them to be more honest in their dealings than the officers of the very same concerns might be in their private capacity. All things considered, the business corporation is one of the most useful of institutions, and its shortcomings, mostly remediable, are far outweighed by the service which it renders.

Business Done by Corporations.—The growing importance of corporations is well seen in the development of our manufacturing industries. According to the United States Census, in the year 1904, 11 per cent of the value of manufactured goods was produced by individual manufacturers, 74 per cent by corporations, and 15 per cent by other establishments; but in 1919, only 6 per cent was produced by individuals, 88 per cent by corporations, and 6 per cent by other producers.

In 1909, more than 92 per cent of the mineral output of the United States came from corporation-owned mines. Practically all of our railways, shipping, telegraph and telephone lines, municipal tramways and lighting systems, banks and insurance companies, as well as a large and increasing proportion of our merchandising, are carried on by corporations. Agriculture is the only field in which the corporation has done little; but including that, Dr. W. I. King estimates that 39 per cent of the total products of industry in the United States was turned out by corporations in the year 1899, and about 44 per cent in 1909.

Internal Organization of Corporations.—When we look into the internal organization of business corporations, we find that it varies greatly, according to the kind of business, its size and other circumstances. A small banking corporation may have an organization as simple as that of a small private banker, in which the proprietor is teller, cashier, manager and president, all in one. On the other hand, a great city bank has a very complicated organization of personnel, and an equally complicated system of office furniture and fixtures, safe-deposit vaults, machines and other material equipment. A loan and trust company will have a somewhat different organization; an insurance company differing still more; and so with a railway company, a manufacturing company and other business corporations too numerous to mention.

Example of Corporate Organization.—As a sample of such internal organization, we may take that of a large manufacturing concern in the middle west, as outlined by Professor De Haas. The stockholders, at their annual meeting, elect the Board of Directors, who appoint the President, four Vice-Presidents, and the General Manager, who constitute the Board of Control. There are four chief departments, each under a vice-president. The first vice-president has charge of the purchasing and welfare work, the second has charge of sales and advertising, with an assistant sales manager, who has five departments under him: publicity, house publications, exports, salesmen and advertising.

A Complicated Organization.—The third vice-president, in charge of production, has a factory manager under him, and he has charge of experimental work, production, materials, labor, efficiency and accounting. The fourth vice-president, at the head of the department of finance, has an assistant treasurer, under whom is the cashier's department and employees' contracts. Then, directly under the Board of Con-

trol are the departments of correspondence, mailing, traffic, service, credits, collections and accounts, employment, stenographic work, superintendent of buildings, and filing—each of these departments having its own subsidiary organization. For example, the department of credits, collections and accounts has no less than five divisions—accounting, collections, legal, credit and auditing, under which are minor subdivisions.

Size, Efficiency and Survival.—This should be sufficient to indicate the great size and extreme complexity of many business corporations, the importance of system in every part, and the danger that corporations may become so large as to be beyond the grasp of any single intelligence. In such a case, waste and inefficiency are apt to creep in, for no system, however perfect, can wholly dispense with human personality and leadership. It may be that some of our corporations are already overgrown, and, like the gigantic sloths of past ages, may disappear before the competition of smaller and more active organizations, better suited to the changing environment.

Personnel and Material Equipment.—As in agriculture and the other primary industries, so also the urban industries, large and small, have their two-fold classification of persons and things. The departmental organization is first of all an organization of persons, but corresponding to it is the arrangement of plant, machinery, raw material, and other material equipment, in absence of which the personnel could accomplish nothing.

The Process of Manufacture.—For example, in a manufacturing establishment one can see raw materials, machinery and coal arriving by ship or rail and being stored away for future use. Presently, the raw material comes out of the stores, as though alive, and passes along its predestined path, through the various processes of manufacture. As it goes along, it encounters many persons, machines, tools and reagents,

is subjected to various operations of addition, subtraction and transformation; until, finally, it comes out of the factory as a finished product, packed, labeled and ready for shipment to the ends of the earth.

Other Economic Processes.—Similarly, in a retail store, goods arrive, are distributed to the various departments, arranged, displayed, advertised, explained and sold, and, finally, delivered at the consumer's home. So, also, in a railway, there is a vast organization of persons and things existing and working for the transportation of passengers and goods—a service indispensable to the industrial life of America and all the other countries of the western world.

A Complete Survey Impossible.—Still other features of our economic society might be noted, such as the situation of cities, the localization of particular industries, the main lines of transportation by land and sea, the organization of labor in its own interests, the social stratification of rich and poor, and all the other parts and functions of industrial society. However, enough has been said to show that it must be examined and described in two ways: first, as a complicated arrangement or mechanism of persons and things; second, as an organization in constant motion, a going concern, operating or functioning in the production and distribution of wealth and income. Thus, by studying the industrial machine at rest and in motion, we have a sort of anatomy and physiology of economic society.

Economic Society a Gradual Development.—And when we study our present industrial society in this way, and in the light of its past history, we see that it is not a machine invented at a given moment by the mind of man, nor cunningly designed for the exploitation of the weak and poor. It is, rather, something that has grown from small beginnings to its present vast dimensions and extraordinary efficiency by a

process of variation, adaptation, and survival, similar in many respects to the organic development of plants and animals, though far more rapid and more closely related to the creative intelligence of man

It is difficult to get a broad view of our economic organization, and still more difficult to look into the works and see what is going on. Still, the task must be attempted, for it is only by such observation, aided by imagination or visualization, that one can understand what economic society is and what it does, and see the place and work of man in the web of social relationships which he has woven about himself.

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QUESTIONS AND TOPICS

1. What is society?
2. Is society an organism? Why or why not?
3. What makes modern society so complicated?
4. Describe the internal organization of any institution with which you are familiar.

- 5 Show the relation of geography to economic organization
- 6 Describe the rural organization of your neighborhood
- 7 Describe the organization of a small and a large farm
- 8 Describe the organization of your nearest village or town
- 9 Explain the persistence of the small farm
- 10 What is the most advantageous size of farms in your neighborhood? Why so?
- 11 What are the advantages of large-scale production in other lines? Why do they not apply equally to agriculture?
- 12 Distinguish between the individual proprietorship, the partnership and the corporation. Indicate the advantages and disadvantages of each
- 13 Explain limited and unlimited liability
- 14 What is the "double liability" of banks? Why do they have it?
- 15 Describe the different forms of corporate securities
- 16 Why should anyone refuse to buy stock in a corporation unless he could have complete control of it?
- 17 Why do people say that a corporation has no soul? Is this just?
- 18 Show the importance of the business corporation in American economic life
- 19 Mention some corporations organized for other than business purposes
- 20 Describe the internal organization of any corporation with which you are familiar
- 21 Is it possible that some corporations may be too large for efficiency? Why or why not?
- 22 Show that the two-fold organization of persons and things runs all through economic society
- 23 Show that our economic society is constantly changing

CHAPTER VI

THE PRIMARY OR BASIC INDUSTRIES

Primary and Secondary Industries.—Man and nature are the first or basic things in economic life, so we call those industries primary, like hunting and fishing, herding and agriculture, in which man is close to nature, and those secondary, like manufacture, which begin where the primary leave off. In strictly primitive times, when men lived by collecting, merely, had neither tools nor weapons, clothes nor houses, and ate their food raw, all industry was primary, if it can be called industry at all. But as soon as men began to manufacture anything, or to work over the raw materials in any way, the secondary industries began, and man commenced to lead a really human existence. The beginnings of the secondary industries, therefore, were the first steps in civilization.

Importance of Secondary Industries.—For example, the hunter who kills a deer provides the raw material for food and clothing; but his wife who cooks the meat, tans the leather and makes the clothes is engaged in a secondary occupation, though quite as important as the primary, in that she is making the animal fit for human use. The making of bows and arrows, knives, hatchets, traps, canoes, and all other tools, weapons and appliances are secondary occupations; but without them the hunter or fisher would have slight success in getting game or fish. In other words, the primary and the secondary industries have gone hand in hand since the dawn of civilization, and we cannot truly say that the one is more essential or important than the other.

A Question of Priority.—The primary industries, therefore, are those which are first in the order of time, or which supply the raw materials for the secondary industries. In early times far more people were engaged in the primary than in the secondary industries, but, with the progress of civilization, the secondary activities grew until, in some countries, they quite overshadowed the parent industries.

When the English colonists first came to America, many of them engaged in the fur-trade, shipping and other secondary industries; but presently agriculture, fishing and lumbering became the chief industries, although many secondary industries were carried on in the home and in the villages and the larger towns. For a long time, most of the people lived in the country, where the primary industries were the predominant occupation.

Rural and Urban Population.—In the year 1790, when the first census was taken, 96.7 per cent of the inhabitants were classed as "rural," that is, living in the country or in towns of less than 8,000 inhabitants. In 1880, on the same basis, 77.5 per cent of the people were "rural." In that year the basis was changed by calling towns of 2,500 inhabitants "urban" and all others "rural." On that basis, in 1880, 70.5 per cent of the population were classed as rural; but in 1920 it was found that only 48.6 per cent were rural, and, for the first time in the history of the United States, more than half the inhabitants were urban, while most of the inhabitants of the smaller towns and villages were engaged in trade or other secondary occupations.

Percentage of Population in Primary Industries.—Another and better way of estimating the relative importance of primary and secondary activities is by taking the statistics of occupations of the United States Census, which were first compiled in the year 1850. In that year no less than 44 per

cent of the free men were directly engaged in agriculture, not counting about 3,200,000 slaves, of whom probably three-fourths were agricultural laborers, making the proportion of the population engaged in agriculture and animal husbandry about 54 per cent.

Effects of Industrial Progress.—Farming is still the greatest single industry in the United States, but smaller, relatively, than in former times. According to the Census of 1920, there were in that year 41,600,000 persons engaged in gainful occupations, of whom about 12,000,000 were engaged in the primary industries, including, in order of numbers, 10,500,000 in agriculture and animal husbandry, 1,000,000 in the extraction of minerals, 500,000 in forestry and 50,000 in fishing. According to these figures, less than 30 per cent of those gainfully employed were engaged in agriculture and animal husbandry, as compared with 54 per cent in 1850. In the same year (1920), of persons engaged in gainful occupations no less than 12,800,000 were engaged in manufacture and mechanical pursuits, and about 16,000,000 in trade, transportation, personal service and other secondary occupations.

The Industrial Pyramid.—Important as the primary industries are, in that they are the basis upon which all the others rest, it must not be thought that the foundation is greater than the superstructure. Measured by the number of people engaged in the various occupations in the United States, agriculture and the other primary industries constitute about a third of the whole; manufacturing and mechanical pursuits, another third; domestic and personal service about a tenth; commerce another tenth; transportation about a fifteenth; and so on. The industries of the United States, therefore, might be represented as a pyramid, with an immense base, an equal second storey, and successive layers tapering to the top, where we might place the most skilled professions, such as law, medi-

cine, business management, and the fine arts, which, though highly valued, are small in point of numbers.

In other countries the industrial distribution is different. In Russia, farming and cattle-raising are relatively far more important, including over 80 per cent of the population. In England and Wales, in 1901, only 9 per cent of the gainfully employed were engaged in agriculture, forestry and fishing, while 23 per cent were in trade and transport, and 48 per cent in manufacturing and mining. The United States occupies a middle place between the predominantly agricultural countries, on the one hand, and the predominantly manufacturing, on the other.

Causes of Migration to Cities.—The extraordinary development of the secondary industries in all progressive countries, and the enormous growth of cities, which is directly connected with it, may be traced to several powerful forces, notably the increasing use of machinery, and improvements in transportation brought about by the Industrial Revolution.

In pioneer days, the settlers did almost everything for themselves, and towns were few and small, as there was little demand for their manufactures, but since that time, because of the taking up of new lands, the invention of agricultural machinery, the building of railways and steamship lines, the application of science to agriculture, the increasing division and specialization of industries, and other causes, the farmers have had an increasing surplus of products which they could not possibly consume. So they have sent their surplus abroad or to American cities in exchange for manufactured goods and urban products of every other kind.

Exchange of Surpluses.—The farmer might, of course, have taken up less land, raised less wheat, corn and pork, and kept his family working at spinning, weaving, tailoring and all the old-time domestic industries; but he found it more

profitable to give his time to agriculture and animal husbandry and to exchange his surplus for manufactures made by people who, like himself, were specialists in their own line. Thus, the secondary industries moved from the country to the city; the cities increased in population more rapidly than the country districts, the output of both agricultural and manufactured products was greatly increased, and there was increased prosperity for both classes of producers and for the country as a whole.

Supply Is Demand.—It is, therefore, clear that the surplus of agricultural products which the farmer has to sell constitutes his demand for the products of shop and factory; and, conversely, that the surplus of manufactured goods constitutes the manufacturer's demand for the products of the farm. Supply and demand, therefore, are not two things, but one; or, rather, like the opposite sides of a shield, they are two aspects of the same transaction, namely, the exchange of surplus products. In other words, the city is the farmer's market, and the country is the manufacturer's market, and the one could not prosper without the other. But, inasmuch as food and other raw materials come from the country, agriculture and the other primary industries are of first importance. Without the city, the country people could not live well; but without the country, the city people could not live at all.

Raw Materials.—Farmers, cattlemen, miners and other primary producers supply chiefly raw materials for the manufacturers—wheat for the miller, cattle for the packers, hides for the tanner, cotton and wool for the manufacturer of textiles, lumber for the sawmill, crude oil for the refinery, ore for the smelter. (Raw and semi-raw materials, therefore, are the early stages of commodities which must go through a more or less elaborate process of manufacture before they are ready for the use of man.)

Finished Products.—But the primary industries supply also some finished products, such as vegetables, fruits and fishes ready for the cook or housekeeper, if not for the table. In fact, it is not always easy to distinguish between raw materials and finished products. Potatoes designed for the table are almost, if not altogether, finished, when fed to hogs they are raw material for pork. Similarly, apples may be raw material for cider, strawberries for jam, oranges for marmalade, milk for butter, grapes for brandy, roses for perfume.

Middlemen Are Producers.—Then, too, it should be remembered that primary products are not fully produced until they have been carried by the railway and distributed by the merchant. They are not really “finished,” in the full sense of that word, until they have arrived at the home of the final consumer, ready for his use. Merchants and transport workers, therefore, though often called “middlemen,” are producers and creators of wealth, for their work is quite as necessary as that of farmers and manufacturers.

Extractive and Genetic Industries.—The primary industries are often called “extractive,” because their products are derived or taken from the earth, but agriculture, cattle raising, forestry and fish-culture are more properly called “genetic,” that is, creative, as they have to do with the growing or breeding of plants and animals. When a farmer or cattleman makes two blades of grass or two cows grow where one grew before, he is not a collector or extractor, merely, but a creator of something new in quantity or quality, or both.

Mining is the typical extractive industry, as it takes from the earth what never can be restored. Lumbering is for the most part extractive—witness the wholesale destruction of the American forests—though it may become genetic through the practice of scientific forestry. Hunting is extractive, but the domestication of animals is genetic, and has played a notable

part in the growth of civilization. Deep sea fishing is decidedly extractive, although the fecundity of the sea is so great that fishes are reproduced about as fast as they are destroyed, and, as runs the proverb, "there are as good fish in the sea as ever were caught."

Exhaustion of Resources.—With this questionable exception, the resources of the earth, though vast, are limited, and, unless properly husbanded, will not last forever. The coastal fisheries, at least, are not what they were, and there is a relative scarcity of crabs, lobsters, oysters, salmon, shad, seals, whales and other creatures of the sea once found in great profusion. The depletion of the inland fisheries is notorious, as every angler knows. The buffalo or bison of the western plains is practically extinct, and the caribou of northern Canada would share the same fate if people were numerous in those regions. Our pine forests are no more, and the destruction of other valuable trees has been appalling. Most of our natural gas wells have run out, and it is said that our petroleum deposits may be almost gone within fifty years. Coal, even, and iron ore are limited in quantity and will not last forever.

Future of the Genetic Industries.—For its future prosperity, then, the world must depend on the genetic or creative rather than the extractive industries, unless the chemists come to the rescue with new minerals, synthetic foods, and fabrics manufactured directly out of the earth. But even agriculture and animal husbandry have their limitations, for wheat and corn, pigs and cattle cannot be multiplied faster than the supply of their food, which comes from the soil, which itself is limited in quantity and quality. All cattle and sheep men know what damage can be done by overstocking the range, and farmers are well aware that their land will not yield increasing crops, except at increasing, if not prohibitive costs.

The Law of Diminishing Returns.—This common expe-

rience of farmers and cattlemen in regard to the limitations of genetic industry is called, in the language of economists, the "law of increasing costs or decreasing returns" and is one of the most important principles of economic science.

To illustrate. A farmer might spend, say, \$5 worth of labor and capital on an acre of land and reap, say, ten bushels of wheat; he might spend as much as \$10 an acre and get a crop of twenty bushels, and he might even spend \$15 on the land and get thirty bushels in return, but he could not go on with this process of intensive cultivation indefinitely. Before long he would come to the point where additional doses of labor and capital would yield a smaller proportionate return, and this is what economists call the "point of diminishing returns."

How far beyond this point the farmer might go would depend on circumstances, but in any case there are limits to the cultivation of land, to the crops that can be profitably raised and the population which the land can feed. Were it not so, all the people of the world could be fed from the yield of a single acre.

Waste of Natural Resources.—As a matter of fact, American farmers, as a class, have been careless in their use of land, with the result that, in many parts, the original fertility of the soil has been much reduced. Land in Ohio that used to yield twenty to thirty bushels of wheat per acre, now barely yields twelve to fifteen bushels, and even the rich lands of the western plains do not yield the crops of early days. Sooner or later the American farmer must give more thought to maintaining and increasing the fertility of the soil, and thus the problem of the food supply resolves itself into problems of agricultural chemistry and scientific management. Without such help from science, agriculture and cattle raising will be extractive industries as much as mining, taking from the land deposits of plant and animal food which cannot be restored.

In such a case, the outlook for improvident man in his little world would be dismal, indeed.

This calls to mind the celebrated dispute of a century ago among economists and theologians, as to whether the value of land was due to the bounty or niggardliness of nature. Obviously, the question may be answered in two ways—yes and no. Nature is bountiful in that she provides man with many good things, she is niggardly, or at least frugal, in that she stints him more or less. Moreover, in her partnership with man, nature offers all her gifts upon condition that man is to do his part; and man, if he would prosper, must fulfil all the terms of the contract.

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QUESTIONS AND TOPICS

1. Define primary and secondary industry
2. Show the close relation of secondary industry to civilization
3. Explain the increase in the urban population of the United States. Is it likely to continue?
4. Is agriculture the most important industry in the United States?
5. Is it equally important in England? In Ireland? In Russia?

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- 6 Show how the factory has displaced the household industries
7. Would it be better to have a few large cities or more smaller ones?
8. "Supply is demand" Discuss this proposition
- 9 Show the mutual interdependence of country and city
- 10 Distinguish between raw materials and finished products
- 11 Distinguish between extractive and genetic industries
- 12 State and explain the law of diminishing returns in agriculture.
13. Is the fertility of our soil being exhausted? If so, why?
- 14 Why have American farmers been so wasteful in the cultivation of their land?
15. Are Americans more wasteful and extravagant than Europeans?
16. Is nature bountiful or niggardly?

CHAPTER VII

MANUFACTURING

Original Meaning of Word.—The history of the word “manufacture” is a good example of the alteration in the meaning of words that takes place as times and customs change. Originally, to manufacture was, as the derivation indicates, to make by hand; and before the Industrial Revolution, weavers, shoemakers, tailors, carpenters and other craftsmen were known as manufacturers, whether working in their little shops or on the premises of some employer. But now, when we use the word, we think of a great building or manufactory, where many hands are employed, although much of the work is done by machinery; while the proprietor or manufacturer, though he may be the guiding spirit of it all, makes nothing with his hands.

Working on Raw Materials.—Manufacturing is a secondary activity, taking the raw materials of the primary industries and working them over into more useful forms, or creating tools with which to do the work. Both of these processes must have begun in very early times, for man could not have advanced beyond the collecting stage without them. As soon as people began to want better food and shelter and any clothing whatever, they had to do more or less manufacturing. Curing and cooking food is a sort of manufacturing; so, also, the making of huts and scanty garments of grass or skins. Moreover, manufacture could not go far without tools, so from the very beginning of civilization until the present day men have carried on manufacture in these two ancient ways.

Before and After the Industrial Revolution.—Historians usually discern three periods in western civilization—ancient, medieval, and modern—but from the point of view of manufacturing there are but two: before and after the Industrial Revolution, which began in England in the latter part of the eighteenth century. Before that time manufacture was carried on for the most part in the home, often by women and slaves, or by master craftsmen working with apprentices and free laborers, using tools or comparatively simple machines. While the beginnings of manufacturing were very crude, in the course of time many of the household industries reached a high plane of craftsmanship. Then, too, some of the crafts developed into fine arts, such as painting, sculpture and architecture, especially among the Greeks, whose best works of art have never been surpassed.

The Household Arts.—This was the domestic or household system, which flourished in ancient and medieval times and still exists in some parts of the world, as in Russia, China and India, although even there it is being rapidly displaced by the modern factory. The prophecy of King Lemuel, in the Book of Proverbs, gives an ideal description of the “virtuous woman” and the domestic industries under her supervision, thus:

“She seeketh wool and flax, and worketh willingly with her hands. . . . She riseth also while it is yet night, and giveth meat to her household and a portion to her maidens . . . She perceiveth that her merchandise is good; her candle goeth not out by night. She layeth her hand to the spindle, and her hands hold the distaff. She maketh herself coverings of tapestry; her clothing is silk and purple. . . . She maketh fine linen, and selleth it; and delivereth girdles unto the merchant. . . . She looketh well to the ways of her household, and eateth not the bread of idleness . . . Give of her the fruit

of her hands; and let her own works praise her in the gates."

Hiram of Tyre.—Another interesting sketch is given in the Bible of a craftsman named Hiram, sent by Hiram, King of Tyre, to help Solomon in the building of the temple, about the year 1000 B.C. He is thus described: "The son of a woman of the daughters of Dan, and his father was a man of Tyre, skillful to work in gold and silver, in brass, in iron, in stone, and in timber, in purple, in blue, and in fine linen, and in crimson; also to grave any manner of graving and to find out any device which shall be put to him, with thy cunning men, and with the cunning men of thy lord, David, thy father."

The Markets of Tyre.—At a later date, a list is given by the Prophet Ezekiel of some of the most highly valued manufactures of the day sold in the markets of Tyre. Among them are mentioned benches of ivory, horns of ivory and ebony, fine linen and brodered work, blue and purple, precious cloths of rich apparel for chariots, cedar chests bound with cords tabrets and pipes.

Relics of Egyptian Manufacture.—Similar lists might be given of the manufactures of ancient Egypt, Greece and Rome—not always made in the home, as in many cities there were large shops, where a number of specialized workers were employed, much as in a modern factory. Many wonderful things have been found in Egyptian tombs: fabrics of wool and linen; pottery of great variety and beauty, rough and glazed; vases and statuary of granite, limestone, marble, alabaster, ivory, glass and gold; tools of wood, copper and iron; metallic mirrors; cedar chests overlaid with gold; ornaments of gold, rock crystal and precious stones.

Manufactures of Ancient Greece.—From literature and art, rather than from deposits in tombs, we know that the ancient Greeks had practically all the manufactures of the

Egyptians and many more besides. There was household furniture of maple, box and other woods, solid or veneered, often beautifully carved, and even inlaid with gold, silver and ivory; pottery and basket-work of every shape and size; baths of polished stone, often filled by pipes; cups and lamps of terra cotta, alabaster, onyx, glass and metal, the lyre, the harp, the pipe, the trumpet, the clarionet and many other musical instruments; weapons and armor of every kind; jewels of gold and silver, of artistic design, often set with rubies, sapphires, emeralds, opals, agate, rock crystal and other precious or semi-precious stones. Then there were those wonderful statues, paintings and works of architecture which added so much to the beauty and dignity of public and private life.

Preservation of the Ancient Arts and Crafts.—The Romans, in conquering the Mediterranean world, inherited the civilization of all that region, and added much to it themselves; but all of that went down before the barbarian invasion, and did not return, in western Europe, for hundreds of years. However, the ancient civilization was preserved, in large measure, in the Greek Empire, among the Saracens of Spain and northern Africa, in India, China and other parts of Asia. There was always some nation which carried the torch of civilization, and, although there was a great decline in philosophy, literature, sculpture, painting, and the like, it is probable that few of the arts and crafts were wholly lost.

Manufactures of the Middle Ages.—Many of the manufactures of the Middle Ages and of early modern times were very fine and are greatly admired to-day. Hutton Webster says: "European peoples during the early Middle Ages received the greater part of their manufactured articles of luxury through the Arabs. Damascus was long famous for its brocades, tapestries and blades of tempered steel. The Moslem cities of Spain had also their special productions: Cordova,

leather; Toledo, armor; and Granada, rich silks. Arab craftsmen taught the Venetians to make crystal and plate glass."

Localization of Manufacture.—Other places, also, became celebrated for special manufactures. Cashmere, for shawls; Persia, for rugs; Milan, for armor, Arras, for tapestry; Ypres, for cloth; Sevres and Dresden, for china; Delft, for crockery; Worcester, for woolens; Brussels and Valenciennes, for laces. There were celebrated master craftsmen, too, in various places, some of whom are remembered to this day: as Hans Bruggeman, the wood-carver, Ghiberti of Florence, the metal worker; Stradivarius of Cremona, the maker of violins; and Gutenberg of Maintz, the inventor of printing.

Close of the Handicraft Period.—Yet, all things considered, the arts and crafts of the Middle Ages were not equal to those of ancient times, and even so late as the middle of the eighteenth century, western Europe in many respects had not yet overtaken Greece and Rome. The ancient spinning-wheel and loom were still in use; the plow and other agricultural implements had not been much improved; many tools were of ancient model, roads and bridges were far inferior to those of the Romans; on sea men still went in sailing vessels, if not in galleys propelled by oars; on land the lumbering coach was but little better than the Roman chariot; the product of labor was low; the population of the western world was small, the mass of the people lived in great poverty; and, altogether, the industrial outlook was none too promising.

Importance of the Industrial Revolution.—Then came, toward the close of the eighteenth century, the Industrial Revolution, the age of machinery, physical science and modern capitalism, which, in a century and a half, has seen a greater transformation of human society than the preceding three thousand years. This transformation has taken place chiefly in western Europe and the European colonies, but also along the

sea-coasts of other countries, where European and American influence has been most felt. In the interior of Asia, especially in China, ancient civilization seems to have been preserved, and the handicrafts are carried on much as they were thousands of years ago.

The Age of Machinery.—One need not go beyond the threshold of one's home to see that nearly everything is manufactured with the aid of machinery—stones, brick, wood, glass, metal fixtures, stoves, furniture, china, cutlery, books, clothing, food—all have come from factories, where machinery is used and the division of labor has gone far. The homes of the rich contain many hand-made articles, but the ordinary dwelling contains few things made by the old handicraft methods—possibly an oriental rug, a few pieces of lace, a basket or two, a counterpane, a painting—although even in these cases the materials and tools used have probably been made by machinery, and possibly by automatic machinery, fed with raw or semi-raw material at one end while turning out the finished product at the other.

Take, for example, the wood-working industry. In the forest, the lumber-jack still uses the old-fashioned ax and saw. Yet much machinery is used in the felling of trees and in hauling or floating the logs to the mill. The modern saw-mill and the sash and door factory are buzzing with machines, many of them automatic. The prepared material is transported by the steam railway, hauled to the place of building in auto trucks, hoisted by pulleys and cranes, polished by machinery, and, possibly, painted by a spraying machine.

True, the hand and brain of man are necessary at every stage, but labor-saving machines are being introduced more and more, especially where wages are high. What is true in wood-working is no less true of the steel and iron industry, of shipbuilding, of the manufacture of cloth and clothing, the

milling of flour, the slaughtering and packing of meat, the making of boots and shoes, of printing and publishing—in fact, of all the great manufacturing industries of the western world.

The Effects of Machinery.—Naturally, the change from the old to the new methods of manufacture, which in some cases has been quite rapid, has injured many of the old-fashioned craftsmen, while creating new trades and increasing the demand for machinists and factory workers. The introduction of textile machinery in England brought great hardship to a whole generation of spinners and weavers, many of them country folk, who could not readily migrate to the cities or otherwise adapt themselves to the new conditions.

Gradual Change.—Similarly, the old-fashioned shoemakers, tailors, blacksmiths, and jewelers have been more or less displaced by factory-made goods. However, in these lines the change has been more gradual than in the textile industry, and the general increase of population and prosperity, together with the conservatism of people who prefer hand-made articles, has made it possible for the old crafts to linger on, or, at worst, to die a painless death; while the factories have prospered exceedingly, and the general public, as consumers, have enjoyed the benefit of lower prices.

The Factories Displace the Household Industries.—These and other changes have been going on before our very eyes, which is the reason, perhaps, why we have not noticed them. Many industries which not so very long ago were carried on in the home have been partially transferred to shops and factories. Tailoring and dressmaking are good examples of this; also butchering, preserving, and tanning; the manufacture of vehicles, harness, soap and candles; dairying, laundering, and even cooking. In pioneer days, as everyone knows, all these things were done at home by incessant labor on the part of men, women and children; but nowadays even farmers

buy much of their food and practically all of their manufactured goods from other producers. But household industry still lingers, where labor is cheap and it does not pay the employer to introduce expensive labor-saving machinery.

Value Added by Manufacturing.—It is no wonder, then, that an increasing proportion of the population of every country live in towns and cities, where they are employed chiefly in manufacture and commerce. In the year 1919, 30 per cent of the people gainfully employed in the United States were engaged in manufacture and mechanical pursuits, and contributed in that year 29 per cent of the national income. The special census, taken in 1914, showed that the product of manufactures, as measured by the value added to the materials used, amounted to about \$10,000,000,000. The "value added" in manufacture is the difference between the value of the raw materials and the value of the finished product. For example, if a miller pays \$100,000 for wheat and sells the flour, bran and other by-products at \$150,000, the "value added" is \$50,000 and is the miller's contribution to the national income.

Chief Manufactures of This Country.—Measured in this way, the most important group of manufactures were "iron and steel," with a value product of \$1,500,000,000; "textiles" a close second, with \$1,400,000,000; and "food products" third with \$990,000,000 to their credit. After these, in order of importance, came paper and printing; lumber; chemicals; liquors and beverages; vehicles for land transportation; metals and metal products other than iron and steel; stone, clay and glass; leather; railroad repair shops; tobacco; and miscellaneous industries.

Evils of Indoor Life.—Obviously, this immense and comparatively recent growth of indoor occupations must have profoundly changed man's ways of living and thinking. As man was originally an outdoor animal, the change in his mode of

life has doubtless been harmful to him in some respects, and it is a wonder that he can stand it as well as he does. Among the disadvantages connected with modern manufacture and commerce may be mentioned the following. working in ill-ventilated and badly lighted factories, the monotony and one-sided development of specialized occupations, occupational diseases, the intensity and strain of labor, the separation of the workman from the ownership of tools and shop, the loss of independence on the part of directed labor, and the growing antagonism between employees and employers.

But Man Adapts Himself.—For all that, machinery and modern methods have greatly increased the productivity and wages of labor, have shortened hours, lightened work, reduced fatigue, and so greatly multiplied the things which men desire that, notwithstanding the enormous increase in population since the Industrial Revolution, the mass of the people are more prosperous than the middle classes of former times, and the well-to-do of our day live in greater comfort than the princes of those days. Moreover, the general increase in leisure, the achievements of science, the improvement of cities, the building of model factories, the increased attention to outdoor sport and country life—all show that man is not only adapting nature to his needs, but adapting himself to the new conditions, and give reason to think that, when all the gains and losses are summed up, the balance will be strongly on the credit side.

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QUESTIONS AND TOPICS

1. What is manufacturing?
- 2 Distinguish between the crafts and the fine arts.
- 3 What were the old domestic or household arts?
- 4 Were the Israelites skilled in the fine arts?
- 5 Who were the Phœnicians?
- 6 Give a list of articles found in the tomb of King Tut-Ankh-Amen
- 7 Was Athens a commercial center?
- 8 Have many of the ancient arts and crafts been lost?
- 9 What were the Middle Ages in western Europe?
10. Can we speak of the Middle Ages in China, Japan or India?
- 11 Mention a number of places celebrated for special manufactures
- 12 This is the age of machinery Explain
- 13 Mahatma Gandhi believes that India should return to the handicrafts What would be the result of this?
14. Hand-made articles are now luxuries of the rich Explain.
- 15 Does machinery displace human labor?
- 16 Does machinery tend to reduce wages or increase hours of labor?
- 17 "Household industry still lingers where labor is cheap" Why is this?
- 18 The laborer no longer owns his own tools. Show the significance of this fact.

CHAPTER VIII

TRANSPORTATION

Distribution of Mankind.—Although primitive man had no means of transportation other than his limbs, scientists tell us that he made his way to most parts of the Eur-Asian-African continent before the invention of the boat, the sled, or the wheel. Possibly he may have come to America and Australia before those regions were separated from the main continent; possibly he may have come later across the straits, on the ice, on rafts, or in boats. New Zealand and the smaller islands of the Pacific were probably settled gradually by people who came in canoes across vast stretches of ocean. No other animal is so widely distributed on the earth, unless it be the dog, the earliest friend of man, or the rat, one of his worst enemies.

Pack and Draft Animals.—In the course of time, various animals were domesticated, some of which were used as pack-animals, or for hauling sleds or wheeled vehicles, thus facilitating the transportation of persons and property. The horse, ox, ass, mule, dog, camel, elephant, reindeer, yak and llama have all been used in this way, and have played an important part in the elevation of man from savagery to civilization. Naturally, they were available for transportation by land only.

Early Navigation.—No doubt, great rivers, lakes and seas were formidable barriers to transportation before the invention of the boat, which may have come relatively late, although even that was long before the dawn of history. The primitive boat was probably little more than a log or raft, although it

gradually developed in various regions according to the material available and the intelligence and habits of the people. The kayak or skin-boat of the Eskimo is very different from the birch-bark canoe of the Algonkian Indians, the dugout of the Cherokee, or the outrigger canoe of the Pacific Islanders, which has a projecting piece of wood to prevent upsetting, and in which they frequently made long voyages in the open sea.

Improvements in Navigation.—But the use of the boat was mostly confined to inland rivers and lakes, until the invention of the keel, the rudder and the sail, by aid of which the Egyptian, Phœnician, Greek and Roman navigators, in their galleys, propelled by oars and sails, went to every part of the Mediterranean and Black Seas, and even ventured beyond the Pillars of Hercules into the Atlantic Ocean. It is recorded, and it may be true, that an Egyptian navigator sailed around Africa, returning by way of the Isthmus of Suez, where there was a canal joining the Red Sea with the Mediterranean.

Relation of Transportation to Civilization.—Transportation, commerce, and civilization have always been closely connected, and it is noteworthy that all the centers of ancient civilization were on or near navigable rivers, harbors or caravan routes. Such places, at the cross-roads or the junction of waterways, naturally became the meeting place of traders, and, as the regions tributary to them developed, they grew in size and importance. Thus, Egypt was on the Mediterranean at the mouth of the Nile and close to the Red Sea; Tyre and Sidon and Carthage, where caravan routes reached the sea; Damascus and Palmyra, on caravan routes; Babylon and Nineveh on the Euphrates and Tigris; Indian civilization at the mouth of the Indus and the Ganges; Chinese civilization on the Hoang-ho, the Yellow and the Yangtse.

Ancient Transportation and Commerce.—The most

ancient civilization was probably that of Egypt, which spread eastward by sea and land, and westward chiefly by sea. The Phœnicians of Tyre and Sidon, who were great navigators, seem to have been the carriers of civilization from Egypt and Babylonia to Cyprus, Crete, Greece, Italy, Spain and Africa. About the year 1000 B C, King Solomon had a treaty with Hiram, King of Tyre, for trading by land and sea. Spices, gold and precious stones came by the caravan or camel route, which Solomon probably controlled. They had two fleets: one in the Red Sea, which brought great quantities of gold, almag trees and precious stones, and one in the Mediterranean, which made a long voyage every three years to Tharshish, probably in Spain, and, very likely, to the west coast of Africa, "bringing gold and silver, ivory, apes and peacocks." It is known, too, that the Phœnicians got tin from Cornwall and probably amber from the Baltic. Also, they established colonies along the coasts of the Black Sea and the Mediterranean, the chief of which was Carthage.

Greece was peculiarly well situated for trading and colonizing, and largely supplanted the Phœnicians in both respects. Rome built up and held a vast empire largely through sea power, wrested from Carthage, and by means of her wonderful roads and bridges. Venice and Genoa owed their prosperity in the Middle Ages to their sea-borne commerce, from the Levant and the Black Sea in the east, to England and Flanders in the west, and to their overland trade with Germany through the passes of the Alps. Hamburg, Bremen, Lubeck and other cities of the Hanseatic League were well situated for trade between Germany, Muscovy (Russia), Scandinavia and the British Isles.

The Scandinavian Vikings.—The Scandinavian vikings of the tenth and eleventh centuries were great navigators, sailing on commercial and piratical expeditions all over the coasts

of Europe from Norway to Greece. They even made their way by water from the Baltic up the River Neva to the Volga, whence they went to the Caspian Sea and to Persia. They also discovered Iceland, Greenland, and, finally, America, although they did not know that they had found a new continent.

Changing Trade Routes.—Portugal, at a later date, did a thriving trade with the west coast of Africa, and, in the year 1497, Vasco da Gama went around the Cape of Good Hope to Calicut, thus opening the sea route to India. This gave the Portuguese a great advantage in the far eastern trade over the Venetians and Genoese, who had become wealthy by their connection with the overland or caravan trade. After this time, the Italian cities relatively declined, and Portugal, Holland and England successively became the great commercial nations of Europe.

Growth of British Commerce.—Spain, through the discoveries of Columbus, obtained from America much gold and silver, by which she greatly strengthened her military and political power for a time. Holland, situated at the mouth of the Rhine, owes her prosperity and independence largely to her excellent facilities for transportation and commerce. But the best example of all is Great Britain, surrounded by the sea, whose great empire has been created by means of ships, colonies and commerce, backed by the power of her fighting navy. The very situation of the British Isles made the people great fisherman and mariners, from which they naturally drifted into piracy and trade, and, later, into peaceful, legitimate commerce with the colonies and every other accessible part of the world.

Effects of Isolation in America.—In coming to America the English colonists temporarily renounced the advantages of transportation and commerce, especially when they settled in

the interior. The American pioneer or backwoodsman was jack-of-all-trades, as some are to-day, chiefly because he was isolated, far from the market. He could raise food for his family, but could hardly dispose of surplus grain or potatoes, except by feeding them to cattle, which might be driven to market along rough and dangerous trails.

There was plenty of timber, but most of it was not marketable, and often great piles of wood—oak, maple, birch, walnut and the like—were burned to ashes, from which, by a process of leaching, potash was made—one of the staple commodities in those days. It was not uncommon for a backwoodsman to take a barrel of potash and a pack of furs by canoe to the nearest market—possibly a hundred miles away—and to return after a long absence with a pack consisting of a gun or two, some pots and pans, billets of iron, nails, axes, knives and other tools, with the aid of which he and his family made or obtained everything else that they absolutely needed.

Settlements Along Coast and Navigable Rivers.—The settlers along the coast or on the navigable rivers were not so badly off, and gave more time to agriculture, fishing, lumbering and shipbuilding, as they could send their surplus products to Europe and the West Indies, receiving manufactured goods, sugar, molasses and various tropical products in return. From molasses they made rum, a deadly bait in the fur trade and equally efficacious in the slave trade along the Guinea coast.

But European markets across the Atlantic were far away in those days—from three weeks to three months, according to the weather—so the colonists, until the towns grew up, had to do many things for themselves. No wonder that the American people, of good stock to begin with, developed an extraordinary spirit of resourcefulness, enterprise and independence, which, although times have changed, has continued until the present day.

Struggle for Control of the West.—The future of the English colonies depended on the control of the west beyond the Alleghanies, where the great resources of North America lay. The closest part of this region was the Ohio Valley, to which both the English and the French laid claim, on the ground of exploration by hunters and trappers, and treaties with the Indians.

Exploration by the French.—At first the French settlers along the St. Lawrence had a great advantage, in that they had an almost continuous waterway from the Atlantic to the Gulf, by the St. Lawrence, the Great Lakes and the tributaries of the Mississippi. The great navigator and colonizer, Champlain, in the year 1615, went with his Indian guides in their birch-bark canoes from Quebec up the St. Lawrence and the Ottawa to Lake Nipissing, down the French River to what is now Georgian Bay, and thence to the country of the Huron Indians, south of the great bay.

Starting in the year 1669, La Salle and his companions went from Montreal up the St. Lawrence to Lake Ontario and Lake Erie, thence by a chain of rivers and lakes, with frequent portages, to the headwaters of the Ohio, down which he went to the rapids at Louisville, and, possibly, to the junction of the Mississippi. In 1671, on another expedition, he went from the Detroit River to Lake Huron, then to the head of Lake Michigan, crossed the portage at Chicago to the Illinois River, and, perhaps, down to the Mississippi.

The Jesuit missionary Marquette, with Joliet, in 1673, went from Mackinac Straits along the shore of Lake Michigan to Green Bay, thence up the Fox River to the Wisconsin River, thence down the Mississippi to a point near the mouth of the Arkansas River, where, fearing the Spaniards, they turned back. Some years later, in 1718, New Orleans was founded by Le Moyne de Bienville, and thus the French controlled both

ends of the St Lawrence-Mississippi waterway, which, under good management, would have given them the best part of North America.

Success of the English.—The Dutch and, later, the English, had a strategic location on the Hudson River because of the waterway to Canada by Lake Champlain and the Mohawk route to Lake Ontario, whence they had access, by a more difficult route, to the Ohio Valley. The settlers in Pennsylvania and Virginia had to cross the mountains to enter that debatable land, but they did so, and thus began the long struggle which, by the treaty of Paris of 1763, gave Canada and the Ohio Valley to England, and prepared the way for the American Revolution.

Development of Transportation in America.—First waterways and Indian trails, then roads, then canals, then steamboats, then railways—such was the order of the development of transportation in America, followed, in our own day, by urban tramways, automobiles, and airplanes. A canal was built in Orange County, New York, in 1750. The first turnpike road was constructed in 1790. Robert Fulton's sidewheel steamer, the *Clermont*, began to navigate the Hudson in 1807, and in 1819 the steamship *Savannah*, owned by a New York firm, made the trip from Savannah to Liverpool almost all the way by steam in twenty-nine days. In 1816 steam navigation on the Ohio became fairly regular.

Roads and Railways.—The first section of the Cumberland Road, from Cumberland to Wheeling, was finished in 1818; and it was completed to Vandalia, Illinois, in 1838. The Erie Canal, following the old Mohawk waterway, was completed in 1825. The first important railway in America, the Baltimore and Ohio, was opened in 1830; and in the same year the Mohawk and Hudson was commenced—the first link of the New York Central. The Illinois Central was begun in

1850; and the Union Pacific and the Central Pacific were finished in 1869, after which one could go by rail from ocean to ocean.

The early settlements of the United States were along the coasts and on the navigable rivers as far as the "fall line"; but the settlement of the interior was dependent upon roads and canals, but chiefly the railways. This is particularly true of the great middle west which, without the railways, would not have been well settled at the present day. Then, too, the building of the Union Pacific and other great interstate railways has brought the states closer together economically and politically, and has thus cemented the Union.

Recent Developments.—The modern automobile, based on the internal combustion engine, dates from 1895, although various attempts at a horseless carriage had been made for a century before this. Efforts to conquer the air were made in France toward the end of the eighteenth century, and dirigible balloons were successfully operated in France and Germany about a century later. The most notable experiments with machines heavier than air were made in the United States by Langley and Maxim, and in 1906 the Wrights of Dayton, Ohio, flew twenty-four and a half miles in a biplane, thus proving the practicability of aerial navigation.

The Growth of Cities.—The importance of transportation in the economic and political development of the United States can hardly be exaggerated. Because of the Hudson River, New York early became our chief commercial city, and her position was intrenched by the building of the Erie Canal and, later, the New York Central. Boston, Baltimore, Philadelphia and Charleston owe their importance largely to their harbors and their railway connections. Buffalo is at the foot and Duluth at the head of navigation on the Great Lakes, and they are important railway centers as well. Chicago stands first

among our interior cities in its central situation and its lake and railway connections. New Orleans, at the mouth of the Mississippi, San Francisco, Los Angeles and Seattle on the Pacific, are connected by rail with great and prosperous parts of the interior, and by water with the rest of the world.

Location of Canadian Cities.—The influence of transportation is no less important in other countries. The railways between the United States and Canada facilitate trade between the two countries, although most of Canadian trade goes east and west along Canadian railways and waterways. Montreal is the chief city of Canada because it is at the head of Atlantic navigation, Toronto is the chief port on the Great Lakes; Winnipeg is at the junction of railways running east and west, north and south; Vancouver is the gateway to the Pacific. So, also, in every other part of the world, transportation is a great factor in economic and social development.

Transportation and Communication.—Transportation, in the broad sense of the word, includes all agencies or means of communication the post office, the telegraph, the telephone, and the wireless, which transmits signals, sounds and even pictures by the electro-magnetic waves which travel through the ether. And, if we include among these agencies the transmission of ideas by books, magazines, newspapers and moving pictures, we begin to realize what a tremendous part transportation plays in the complex life of modern times.

Access to Markets.—Without transportation, there is no market for surplus products, so every family must produce for itself alone, and there is incessant toil and general poverty, as in pioneer days. When transportation is poor, wheat, corn, eggs, butter and all other agricultural products are absurdly cheap on the farm; while the products of distant places, such as city-made furniture, machinery and most luxuries, are extremely dear. As transportation improves, home products rise

in price and the products of distant places fall—in other words, prices are equalized.

Specialization and Localization of Industries.—Unquestionably, much of the prosperity of the United States is due to her great waterways and her magnificent railway systems, which enable every part of the country to give special attention to those things which it can produce to the best advantage, and to obtain the products of every other part, as well as those of foreign countries, at reasonable prices.

New York could not exist at all if it were not daily supplied with food, fuel, clothing and all the other necessities of life by ships and railways. Pittsburgh manufactures steel for the western farmer, who sends bread and meat in return. The coal miner is peculiarly dependent upon transportation for the marketing of his coal, and for his own subsistence. Clothing is manufactured in New York and boots and shoes in Lowell, silverware in Meriden, furniture in Grand Rapids, cereals in Battle Creek; and the producers of all these things get flour from Minneapolis, cotton from Louisiana, oranges from California, tobacco from Virginia, rubber goods from Akron, maple sugar from Vermont.

The World Market.—Similarly, the increasing prosperity of the civilized world during the past century has been largely due to improved transportation by sea and land. In fact, the enormous increase in the population of western Europe has been due in large measure to the opening of new lands in America, Australia and Russia, which send their surplus food-stuffs to Europe and receive manufactured goods in return. Because of transportation, too, we are able to enjoy the products of every land and clime—tea from China, coffee from Brazil, pineapples from Hawaii, dates from Persia, ivory from central Africa, carpets from Afghanistan. Thus, the whole

world is knit together by ties of trade and transportation in a world market.

Exchange of Ideas and World Unity.—Cheap and rapid transportation, also, has made it possible for people to travel far more than formerly, and has facilitated the exchange of ideas throughout the world. There is now a world market for ideas, as well as for commodities, so that the people of every country tend more and more to use the same commodities, to dress and act and think alike, and even to speak a common language—the English tongue. There may be, in this standardization of things, a certain loss of variety which the scientist and the artist may deplore, but is there not a greater gain in that the people of the world are coming to understand one another better, and to have more sympathy with one another? If so, we may hope that some day the world will be economically, if not politically, as one country, and that common ways of life will make for peace and goodwill among men.

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QUESTIONS AND TOPICS

1. How did primitive man make his way to various parts of the world?
2. Give some account of the various animals used in transportation
3. Sketch the gradual development of the ship
4. Show the relation of transportation to the location of cities in ancient and modern times
5. What special advantages have England, Holland and the United States?
6. Show the relation of transportation to the spread of civilization
7. Trace the ancient caravan routes between Europe and Asia. How did Marco Polo reach China?
8. Account for the far-reaching voyages of the Norsemen
9. Indicate the economic changes brought about by the discovery of the sea route to India, the building of the Suez Canal and the Panama Canal
10. To what extent was the American backwoodsman self-supporting
11. Show the relation of transportation to the fur trade
12. Show the advantages which the French colonies had over the English in regard to transportation
13. How did the English overcome their handicap?
14. Show the political importance of the Union Pacific Railway and of the Canadian Pacific
15. Explain the enormous growth of New York and Chicago
16. Distinguish between transportation and communication
17. Show the relation of transportation to specialization
18. Why are certain industries situated in certain places? Give examples
19. Show how the world is being unified through transportation and communication
20. Do people of different races become more friendly as they learn to know one another better?

CHAPTER IX

TRADING AND MERCHANDISING

Direct and Indirect Exchange.—Trading and merchandising are the lower and the higher forms of commerce, or exchange of goods and services. The simplest form of trading is usually called barter, or direct exchange of goods for goods. For example, when a fisherman trades directly with a hunter, say, ten salmon for one deer, that is barter. But when a fisherman sells his ten salmon for ten strings of wampum with which he afterwards buys a deer, that is indirect trading by means of a sort of money or medium of exchange, but it is not yet merchandising, as there is no merchant or middleman in the transaction.

Three Forms of Commerce or Exchange.—There are then, at least three forms of commerce: first, simple, direct barter or exchange of goods for goods or goods for services, second, indirect exchange of goods for money and money for goods, without the services of a merchant, third, merchandising, or the activity of the merchant or middleman in buying and selling goods which other people have produced, or, possibly, services which other people render. The buying and selling of services, however, is not so common or conspicuous as the buying and selling of things, so we usually think of a merchant as dealing in goods or merchandise.

Trading Among the American Indians.—Before the Europeans came to America there was comparatively little trade among the Indians; yet even among the northern, and less civilized tribes there was diversity of occupations and,

therefore, some advantage to be obtained by trading. The Abenakis and Micmacs, for example, living near the coast, had abundance of salmon, shad and other fishes; the Algonkians of the St. Lawrence had the finest birch-bark canoes, the Iroquois had plenty of corn and tobacco; certain tribes controlled deposits of salt, pipe-clay, or copper, or got especially desirable furs in their hunting and trapping. In time of war, of course, they had no friendly relations; but when peace was declared or an alliance formed, they met at some convenient place, had pow-wows, smoked the pipe of peace, and traded more or less.

Then, too, within a given tribe there were men and women especially skilled in the manufacture of bows and arrows, canoes, traps, nets, flint weapons and implements, clothing, wampum, ornaments—with whom the hunters were glad to share the spoil of forest, lake and stream. Also, when a hunter had good luck he distributed part of his game and fish to his less fortunate neighbors, with the understanding that, when conditions were reversed, they would do the same. This practice is followed by the Eskimo and other remote tribes at the present day, and such exchanges of gifts, evidently a kind of barter, may have been the earliest form of trading.

Trading Between Whites and Indians.—When the white man came, exchange of gifts and systematic trading began immediately. At first the Indians would give food, splendid furs, and even land in exchange for a few colored beads or gaudy trinkets; but later, as buyers multiplied, they demanded blankets, knives, hatchets, firearms and firewater, in increasing quantities, and would go where they could get the most for their furs.

Rivalry Between French and English.—The French in Canada had a double advantage in that they controlled the great waterway of the St. Lawrence, and in that better furs were found farther north. They used to meet the Indians in

early summer at various places: Tadousac, at the mouth of the Saguenay; Quebec, near the confluence of several rivers; Montreal, at the mouth of the Ottawa, and near the Richelieu; Fort Frontenac, on Lake Ontario, Fort Duquesne, now Pittsburgh, at the confluence of the Ohio and the Monongahela; Detroit, Michilmakinac, Vincennes, and other trading points, from the Atlantic to the Gulf. The Dutch and, later, the English, had a great trading place at the junction of the Mohawk and the Hudson, now Albany, where they met the Iroquois and, occasionally, Indians from Canada. But, as a rule, the French beat the English in the fur trade and in establishing friendly relations with the Indians.

The Hudson's Bay Company.—However, the English stole a march upon the French in chartering, in the year 1670, "The Governor and Company of Adventurers Trading into Hudson's Bay," which established trading posts or "factories" far to the north of the French settlements. Gradually, the Company's traders made their way to Lake Winnipeg, the Saskatchewan, the Mackenzie, the great northern lakes, and even to the Arctic Ocean. Also, they crossed the Rocky Mountains to the Oregon region before the time of Lewis and Clark. For many years the Company had a monopoly of the fur trade in Prince Rupert's Land and the Hudson's Bay Territory. It still exists, although its land business is now more important than its fur trading.

Colonial Trade and Commerce.—With the development of the European settlements in America, as in South Africa, Australia, and other colonies, trade with the aborigines relatively declined, and their own domestic and foreign trade became more and more important. The colonists had commerce with Europe from the very first, as they had to be supplied with many things before they became self-supporting, even as settlers coming to the far west usually brought an "outfit"

with them and received remittances from the east long before they had anything to send back. Thus, the New England colonies, like all new countries, imported more than they exported at first and for many years. However, they soon had something to send back to England, especially codfish, furs, potash, and "naval stores"—masts, yards, bowsprits, tar, pitch, rosin, and turpentine.

Specialization and Exchange.—As there were people of various occupations among the first settlers, they soon began to ply their several trades and to exchange commodities and services with one another. The farmers soon had corn, wheat and vegetables to sell, hunters had their game, fishermen their fish; lumbermen their wood for building and fuel, and so on. As the settlements grew there was work for carpenters, smiths, millers, tailors, clergymen, schoolmasters, physicians and surgeons—and thus the colonies gradually provided for themselves, more and more, though still importing luxuries and necessities from England and, later, from the West Indies.

Much trading was done without the help of merchants, as is the case to-day. Farmers and fishermen peddled their products in the town, or the townsfolk went to the country or the seacoast to get them. Craftsmen working for temporary employers received board and room and produce as part of their pay; clergymen received much, if not all, of their salaries in "kind"; schoolmasters "boarded round", and thus everybody managed to live in a frugal way, with very little money changing hands. There were markets, too, in many towns, where the consumers could buy direct from the producers on stated days. And yet merchants and other middlemen had their place and work, because they were needed by both producers and consumers.

Steps in Commercial Development.—The development which went on among the American colonists was not essen-

tially different from what had occurred centuries before in the old country. Three steps or stages—the household, the trading, and the merchandising—were rather clearly marked, though overlapping more or less.

In the household stage, the family produced almost everything needed, and there was little exchange or trading. In the second stage, there was a degree of division of labor and diversity of occupations, with direct trading or barter in goods and services, and some indirect trading or buying and selling for wampum, tobacco, skins, coins and other forms of money. In the third stage, merchants or middlemen arose, buying wholesale from the producers, transporting, storing and selling at convenient times and places. Europe had already passed into the third stage before our colonial period, but the colonists reverted to the second and even the first stage of commercial evolution, especially on the remote and isolated frontier, where they were thrown upon their own resources

Peddlers.—The inadequacy of the household industries and the inconvenience of trading account for the speedy appearance of peddlers, local merchants and other middlemen to help the people in their buying and selling. The peddlers' visits were important events in the backwoodsmen's life, as they brought a well-filled pack containing guns, powder and shot, steel traps, tools, knives and forks, pins and needles, cooking utensils and many other things which the settlers could not easily make for themselves. Also, the peddlers bought furs and other commodities from the settlers, carried news from place to place and made themselves useful in other ways. In the towns there were resident merchants who brought country produce and manufactured articles from far and near, and kept a large, varied and continuous supply of goods for the convenience of their customers.

Markets.—The frontiersmen, evidently, could not readily

sell their produce without the help of middlemen; and even the farmers and fishermen near Boston, New York and Philadelphia could not spend all their time in the market, without neglecting their farming, lumbering or fishing, as the case might be. True, many of them could and did send their wives and daughters to market once or twice a week, even when they were much needed at home, and came themselves now and then, especially in slack seasons, to sell their stuff, to do their shopping, and to see their friends. The market place was a social, as well as a business, center, but, notwithstanding all its attractions and advantages, it declined in importance or passed away when better ways of marketing were discovered.

Merchants and Merchandising.—As a matter of fact, many of the sellers in the market were really merchants, acting as agents for their neighbors who could not come. Also, local merchants often bought up the market at an early hour, letting the farmer and fisher folk go home to their work, much to the disgust of later customers. Finally—and this was the sin of “forestalling” and “engrossing”—the merchants began to go to the country and to the seacoast for their supplies, thus saving the producers the trouble of coming to market, since when the old-time market has played a minor part in American rural and urban economy. To “forestall” is to get ahead of the consumers by buying up goods which would ordinarily come to market, to “engross” is to buy in large quantities or wholesale, or, as the French say, “*en gros*,” in the large—hence our word “grocer.” But, as everybody knows, the retail store is far more convenient than the old-time market, and forestalling and engrossing are now reputable practices, without which merchants could not do business.

Services Rendered by Merchants.—As to the townsfolk, they used to go to market to buy direct from the country people; but of late years they have for the most part ceased

to do so, as they find it more convenient to deal with merchants. Merchants are able to compete with the markets because they serve the public in many ways. by bringing goods of every kind from all parts of the world, by keeping them in storage until they are required; by selling them in convenient quantities; by delivering them as needed; and, in many cases, by extending credit to their customers. Consumers often complain of high prices and merchants' profits; yet most of them will not take the trouble to go to market or to lay in their supplies at wholesale prices

Coöperation.—When people think that they pay too much for the merchants' services, they are still at liberty to buy meat by the quarter, fish by the quintal, butter by the tub, eggs by the case, potatoes and apples by the carload. Or, as is more often done, they may establish a coöperative store, and thus save the middleman's profit. Farmers and fishermen and other primary producers, too, may form coöperative associations for the marketing of their goods, and thus escape from middlemen by becoming middlemen themselves. This alternative has the double advantage of preventing monopoly profits on the part of the merchants, and of showing both producers and consumers how indispensable merchants are, and how little, as a rule, they charge for all the service which they render.

The Coöperative Store.—The coöperative store is an association of consumers formed for the purpose of buying at wholesale and thus saving the retail merchant's profit. Such associations have been very successful in Great Britain, Denmark, Switzerland and other European countries, but have not had any great success in the United States or any of the British Dominions. This is what we call "consumers' coöperation" as distinguished from "producers' coöperation."

Marketing Associations.—Farmers' coöperative associa-

tions for marketing their products, such as the California Fruit Growers' Association, are a form of producers' coöperation designed to save the profits of the commission merchants and other dealers. They have been successful in many cases, although, like the coöperative store, they have troubles of their own.

The Work of Middlemen.—Certainly, in our complex economic society, merchants have an important and necessary work to do and their profits are their reward for services rendered. In the larger towns, the corner grocery and the suburban drug store are most convenient and useful, even though their prices may be slightly higher than those of down-town stores. And it is hard to see how great cities could exist without retail and wholesale merchants, coal and lumber dealers, insurance companies, bankers, brokers, advertising and selling agencies—all middlemen, so-called, but all essential parts of the great and complicated mechanism of exchange. Moreover, the large percentage of failures among merchants seems to show that their profits, as a rule, are none too high.

In the country districts, merchandising is scarcely less important than it is in the cities. Whatever farmers may think of the profits of merchandising, or hope for better methods of marketing, most of them have no desire to do away with resident merchants, horse and cattle dealers, egg merchants, grain elevators, and cold storage concerns, nor even the despised commission merchants. Nor, after looking into the question, would they abolish the produce exchanges, which, with all their speculation, are highly beneficial to both producers and consumers, in grading and standardizing products, equalizing prices and adjusting the complicated interactions of supply and demand in the world market.

Produce Exchanges.—Produce exchanges, such as the New York Produce Exchange, the New York Cotton Exchange,

the Chicago Board of Trade, the Merchants' Exchange of St. Louis, and the Minneapolis Grain Exchange, are central markets for wheat, beef, pork, wool, cotton, coffee and other staple commodities. They are a sort of clearing house for all the local merchants of the country, places to which buying and selling orders come from all quarters, and where prices are fixed from day to day and, in fact, from hour to hour, by supply and demand.

Equalization of Prices.—For the most part, the buying and selling on the produce exchange, as on the stock exchange, goes on under keen competition, which tends to equalize prices and to prevent violent fluctuations. Were it not for the Chicago Board of Trade, and similar central markets or exchanges, the price of wheat would be very low after harvest and very high in winter; there would be little reliable information about crops, there would be no satisfactory market quotations; and only experienced dealers could tell at what prices they might safely buy and sell.

Speculation and the Assumption of Risk.—True, there is much speculation on all the exchanges; but as a rule speculation is beneficial to both producers and consumers, and the only people who are seriously injured are the speculators themselves, when they buy or sell on the wrong side of the market. If there were no wheat pit on the Chicago Board of Trade, and no wheat exchanges in Minneapolis, Duluth, Milwaukee, Kansas City, Omaha, or anywhere else, the farmers would have to do their own speculating and the risks of farming would be greatly increased. Just because there is active speculation in wheat, the price of wheat is equalized throughout the year, and it usually pays the farmer to sell when his crop is harvested rather than to hold it for a rise in price which might or might not take place.

In other words, the speculators, acting as insurance men or

underwriters, have assumed the risk which the farmers used to take, leaving them only the uncertainty of the weather and the usual risks of business. Yet underwriters can protect the farmer against the weather also, as in the case of hail insurance.

Exchanges Are Central Markets.—The members of the Chicago Board of Trade and similar exchanges, together with the brokers and operators connected with them, are the agents of innumerable buyers and sellers throughout the country. Some are commission merchants selling wheat for farmers and elevator companies; some are exporters buying wheat for the European market, some are buyers for the flour mills of the United States; others are bankers, insurance agents, or brokers buying and selling on commission.

Professional and Amateur Speculators.—All these are professional people, who, presumably, understand the business and take no unnecessary risks, and, for the most part, work for salaries or on commission. The real speculators, who buy and sell on their own account, are of two main classes: first, professional operators who make a careful study of the market, know how to take advantage of rising and falling prices, and, in a series of years, usually make a considerable profit, second, the amateurs, outsiders, or "lambs," who, being engaged in some other occupation, like to take a "flyer" on the exchange now and then and, in the long run, are almost sure to lose their money.

Gambling.—Here it is very difficult to distinguish between legitimate speculation and gambling. All business has in it an element of risk, so that all business men speculate more or less; but when a business man takes excessive risks in his own business, or speculates in something that he does not understand and to which he cannot give his personal attention, or tries to manipulate the market to the injury of other people, then he may properly be called a gambler. Gambling is one

of the evils connected with legitimate business and is very hard to cure or even control, so long as there are knaves and fools in the business world.

Risk in Farming.—It is often said that the farmer is the greatest speculator and gambler of all, in that he takes a risk every time he puts in a crop. This may be true in the case of a single crop in a single year, but a farmer who practises diversified farming throughout a series of years, takes no risk at all, beyond the ordinary risks of human life, because he is sure to have a sufficient number of good crops in the long run, if he understands his business.

Risk in All Business.—So also with the merchant. He may take a risk in buying potatoes, wheat, cotton, dry goods, or hardware, at a particular time and place; but as he buys a variety of things from time to time, he stands to earn the usual profits of merchandising, if he is a competent man and is diligent in his business.

Should Middlemen be Eliminated?—The fact that the profits of merchandising are often large, especially when business is conducted on a large scale, as in some of our great department stores and mail-order houses, has led many farmers and other primary producers to try to eliminate the merchant or middleman by means of coöperative associations of one kind and another. Then, too, it has been suggested, from the side of the consumers, that municipalities should take charge of the distribution of coal, bread, fruit, vegetables and many other staple commodities, and, sooner or later, take over most of the business of merchandising.

Coöperation and Governmental Trading.—Such suggestions as these, backed by the moderate success of coöperative associations and municipal trading, have been due partly to the failure of merchants to serve the public as they should, partly to the fact that people do not fully understand the

important service which merchants render to producers and consumers. To put it briefly, merchants are agents of both producers and consumers, selling for one and buying for the other as these people have not yet been able to do for themselves. If all of their work, in country and city, can be done by coöperative associations or by governmental bureaus, well and good; but until that day comes, it is well to recognize the great part which merchants play in the drama of the business world.

But whether their services are recognized or not, merchants who understand their business have little to fear from coöperative or governmental competition. Coöperators are usually inexperienced in business, cannot give full time to the association, and must pay a competent manager a salary equal to the profits of a local merchant. Government servants are too often lacking in initiative, enterprise and interest, are not allowed sufficient discretion, and are so tangled up in red tape that they are not free to move at the right moment nor in the right direction. In the main, it is true that the farmer will prosper best by farming, the carpenter by building, the shoemaker by sticking to his last, the merchant by merchandising. "Every man to his trade" is a good motto to follow as a rule, although, like most rules, it has its exceptions.

Ethics of Merchandising.—To be sure, there are bandits and pirates along the highways and byways of business, even as in former times. Where there are lambs there will be wolves, and where there are ignorant and foolish buyers there will be sellers ready to take advantage of them. There are in business many opportunities for adulteration, cheap imitation, dishonest advertising, over-selling, monopoly control and other questionable practices, especially on the part of sellers who do not expect to deal with their victims a second time. Against all such gentry the buyer must beware, and his intelligence

and prudence, backed by the terror of the law, when required, are the best protection against dishonest practices.

Yet merchandising, founded on the basic principle of exchange, the giving of something for something, is at bottom sound and right, notwithstanding its perversion by weak and wicked men. It is not charity, for that is giving something for nothing, nor is it robbery, which is taking something for nothing by force or fraud. Business is business; that is to say, it is the supplying of goods and services in exchange for other goods and services, which seems to be the only basis on which the production and distribution of wealth can be permanently carried on.

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QUESTIONS AND TOPICS

1. Distinguish between barter, trading and merchandising.
2. Explain the origin of trade.
3. Show the relation of trade to specialization

4. Mention the chief English and French trading posts in colonial times
5. Sketch the history of the Hudson's Bay Company
6. What were our chief exports in colonial times?
7. Tell what you know of peddlers
8. Describe a typical public market
9. Should every town have one or more public markets?
10. Are the mail-order houses displacing resident merchants?
11. Make a list of the services performed by resident merchants
12. Describe a cooperative store
13. What is marketing?
14. What are middlemen? Are they necessary in the business world
15. Describe the activities of a produce exchange
16. Distinguish between speculation and gambling
17. Show the benefits of legitimate speculation
18. How can the evils of speculation and gambling be prevented?
19. What are legitimate risks in business?
20. Should the municipality carry on wholesale and retail business?
21. Is cooperation likely to displace private business?
22. Show the ethical basis of commerce

CHAPTER X

PERSONAL SERVICE

Number Engaged in Personal Service.—According to the Census of 1920, the population of the United States in that year was, in round numbers, 105,700,000, of whom 41,600,000 were engaged in various occupations, not counting housekeepers working without pay. Of these, about 12,000,000 were engaged in the primary industries; 12,800,000 in manufacturing and mechanical industries; 4,000,000 in trade; 3,000,000 in transportation, 3,000,000 in clerical occupations; and 6,300,000 in domestic and personal service, professional and public service.

This classification is not quite satisfactory, as it does not show where the people engaged in clerical occupations are employed, although we may assume that they are mostly connected with manufacturing, trade and transportation. Also, many domestic servants and waiters are employed in the primary and secondary industries. A few others, too, in the service group, as engineers, sculptors and painters, might almost be classed as manufacturers or merchants in that they make and sell commodities, though they be works of high art.

However, the figures show well enough that a great number of persons are engaged, not in the production, transportation or sale of commodities, but in rendering personal service of various kinds to their fellow-men, for which, in most cases, they receive wages, salaries, fees or other remuneration. They create nothing material or tangible; yet the personal service, whether menial or highly honorable, must be thought worth while by those willing to pay the price.

Kinds of Service.—For example, domestic servants of the right sort are a highly prized luxury nowadays; while trained nurses are necessary in time of serious illness. Physicians minister to the health of the body, clergymen have the cure of souls. Lawyers represent the rights and interests of their clients; judges hold the scales of justice, the police keep order within the state, the army and the navy guard against danger from without as well as from within. Poets, painters and composers create works of art, readers, actors, musicians, singers, dancers, humorists and athletes in their various ways instruct, entertain and amuse those who come to see and hear. Scientists and philosophers seek to know and explain the universe; teachers communicate the knowledge and experience of the ages to the younger generation.

Of course, there are those who misguide the young and foolish, pervert the public taste, and even pander to the lowest vices; even as there are those who make and sell injurious drugs, adulterated food, burglars' tools, and other harmful things; but for the most part people who render personal service, as those who sell goods, give the buyers what they want and need, and thus contribute to the sum of human happiness.

Personal and Material Service.—From the point of view of the buyer or consumer, there is no essential difference between personal service and the service or satisfaction derived from the use of things. A meal properly served is more satisfactory, if not more satisfying, than the same meal rudely set before the diner. A piano, in itself, is merely an article of furniture; it is the player who makes it a musical instrument. A phonograph may reproduce the voice of a great singer; but it is better to hear and see the artist on the stage. A physician's advice may be better than medicine; a lawyer may save his client thousands of dollars by a word over the telephone.

A great poet, teacher or philosopher may inspire and encourage multitudes; a teacher may impart wisdom more precious than rubies

It is evident, then, that all the necessities, comforts and luxuries of life come from two sources only—persons and things—and that there are but two kinds of services—personal and material. Both of these contribute to the satisfaction of human wants, and, presumably, to the happiness of mankind. At any rate, the buyer willingly pays for both, and, whatever we may think of his wisdom or taste, he is, after all, the final judge.

Producers and Non-Producers.—Strange to say, it is often said that only those who create material goods have the right to be called producers, and that all others are non-producers, if not idlers and parasites, living upon the labor of others. In fact, the French economists of the eighteenth century went so far as to say that farmers, miners, fishermen and others engaged in the primary industries were the only producers; and that the secondary industries were not productive to the same degree, as they created no surplus value over the costs of production.

Who Are Producers?—It is easy to see the error of this opinion, as the secondary industries begin where the primary leave off, and the final product could not be completed without them. Wheat is not ready for human food until it has been milled and until the flour has been baked into bread. Raw wool and cotton are not available for use as clothing until they have passed through many processes of manufacture and until they have been carried by the railway and distributed by the merchant. Logs, as the lumberman leaves them, are not finished products; coal is not fully produced until it has arrived in the consumer's coal bin. In brief, raw materials coming from the primary industries are not ready for use until they have been manufactured; and after that, even, they are not

available until they have been sent to the market and placed in the hands of the final consumers, when and where they may desire.

Production of Intangibles.—Yet Adam Smith and other British economists, while taking a broader view than the French, still held that people rendering merely personal service were not producers, because they were not directly engaged in creating material objects or tangible commodities, as though human life consisted wholly in the possession and enjoyment of things, regardless of the immaterial, intangible values, which help men to live and to live well. However, it was admitted that clergymen, teachers, civil servants, and others might be indirectly productive, by making it possible for the producers of material things to do more and better work

Contradictions Pointed Out.—Some curious consequences follow from the proposition that personal service is unproductive. The manufacturers of surgical instruments, legal books, military uniforms and musical instruments are producers; but the surgeons, lawyers, soldiers and musicians, by whom these things are to be used, are unproductive workers. The building of churches, schools and theaters is productive labor; but preaching, teaching and acting are unproductive. In other words, all the preliminary stages in the process of production but the last act, without which nothing is complete, are unproductive. Evidently, we must broaden our conception and regard all those as producers who are engaged in useful labor and contribute in any way to the wealth and well-being of mankind.

Society Without Personal Service.—No doubt,⁶ material things come first in the order of nature, but that is not to say that human progress must stop there. We could, in case of dire necessity, do without legislators, judges, physicians, scientists, artists, musicians, authors, teachers, clergymen, and the

immaterial, intangible services which they render. Then we should be without government, security, law, science, art, music, literature, education, and the ministry or service of the Church. Thus, lacking personal service of every kind, we might exist, in a state of savagery; but we should no longer be living as civilized men.

Domestic Service.—Domestic servants, perhaps, are among the least productive of those who render personal service, especially when employed in large numbers in the homes of the rich; and yet they are just as useful and productive as employees in factories and stores who make and sell expensive articles for the use of the rich. There is really no difference, in point of usefulness, between the work of a diamond cutter or a jeweler, working in a shop, and the service of a lady's maid helping to adorn her employer with the same jewelry. So, also, the work of florists and gardeners working for a company is neither more nor less productive than that of similar people employed in a private greenhouse or garden. There is, of course, a certain social difference between the employees of a store or shop and the personal servants of a rich person; but both are productive in that they supply goods and services and thus contribute to the satisfaction of buyers and employers.

Decline of Domestic Service.—As a matter of fact, much productive work used to be carried on by domestic servants which is now done outside the home by workers on the land, in stores, shops, offices and factories. In feudal times, not only farmers, gardeners, cooks, butlers, coachmen, weavers, tailors, carpenters, and the like, were personal servants to the lord of the manor; but teachers, artists, literary men and even clergymen were attached to the household as higher domestic servants.

Prejudice Against Domestic Service.—The prejudice against domestic servants, then, is one of long standing, and

largely arises from the fact that they are conspicuous signs of inequality in wealth, and from the personal relationship of master and servant, superior and inferior, which does not obtain in outside employment—at least not to the same extent. Therefore, as one kind of work after another leaves the home, the workers obtain an independence which they did not previously have, and the productive character of their work is more clearly recognized.

Professional Service.—It is quite absurd, then, to call those who render personal service non-producers, idlers and parasites; and it is peculiarly absurd in the case of clergymen, physicians, lawyers, teachers, soldiers and others, who render what is commonly called “professional service.” A profession differs from a trade in that it requires not only manual dexterity or mental alertness, but also a large amount of theoretical or scientific knowledge.

Training for Professions.—For example, the army and navy require of their officers a long and thorough training in military and naval science, usually in a military or naval academy. A well-trained clergyman is expected to be a graduate of a college and a theological seminary. A physician or surgeon should have a college course, a course in a first-rate medical school, and a year or two of hospital experience, before being licensed to practise on his fellow-men. A teacher, having charge of the education of children, should be as well prepared for his task as the physician who cares for the health of the body.

Trades and Professions.—A trade, on the other hand, is more mechanical than theoretical, demanding practical experience rather than scientific training; but there is a strong tendency for trades to become professions as they become, not less practical, but more scientific. Bleeding and pulling teeth were once part of the barber's trade; now they are minor parts of

the professions of surgery and dentistry. Engineering, music, dramatic art, pharmacy, agriculture and business administration are among the newer professions. Formerly there were but three learned professions—theology, law and medicine—now there are many, and the number is increasing year by year.

Professional Ideals.—Another mark or characteristic of a profession that is sometimes overlooked, is that a professional man exalts certain ideals of achievement and personal honor, which he must keep in view before the thought of remuneration and, if necessary, before life itself. The soldier must think first of his duty to his country, and secondly, if at all, of pay and promotion. The sea-captain, in disaster, must be the last to leave the ship. The clergyman must shepherd his flock; the physician must care for the sick, the teacher must think first of the children, the scientist of truth, the artist of his art; the author of his play or poem. If remuneration comes to them, as it probably will, well and good, but if not, they will have the satisfaction of being loyal to their professional standards and ideals, and of serving their fellow-men to the best of their ability.

The Professions Commercialized.—And yet, inasmuch as professional people receive remuneration for their services, whether in the form of prices, profits, salaries or fees, they are involved in the network of exchange, are subject to the law of supply and demand, and cannot altogether escape from commercialism, however much they may despise or repudiate it. It is even said, with a measure of truth, that professional people, like farmers, manufacturers and merchants have something to sell, and some go so far as to advise them to advertise their wares.

This is a hard nut for the professions to crack. Like other people they wish to live and to live well; and yet they desire to preserve their dignity, to maintain their ideals, and to keep

the thought of pay in the background as much as possible. Moreover, it is a fact that when a physician thinks too much of his bills he is apt to neglect his science and his patients; when authors and artists descend to pot-boiling they prostitute their art; when clergymen try to "sell" the gospel they find that they cannot serve God and mammon. And as to personal advertising, every professional man feels that there is something indecent about it, even though, under stress of competition, he may descend to it now and then.

Business Professionalized.—Here, as in other affairs of life, it is not easy to draw the line; but the problem, when viewed from the opposing angles, suggests a compromise which appears to be actually taking place. The professions, perhaps, are being more or less commercialized; but at the same time commerce, in its higher planes, at least, is being gradually professionalized. Business requires far more of science than formerly; business practice tends to conform to higher standards and ideals, and business men are coming to realize, more and more, that if they will put service first, prices and profits will take care of themselves.

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QUESTIONS AND TOPICS

1. Distinguish between service and servitude.
2. Is a professional man a servant? If not, why?
3. Is a "civil servant" a servant?
4. Is all service honorable?
5. Distinguish between wages, salaries and fees.
6. Show the importance of personal service
7. Distinguish between personal and material services.
8. What is production? Who are producers?
9. Are there any non-producers in the business world?
10. The French economists said that agriculture was the only productive industry. Discuss this view
11. Distinguish between a trade and a profession
12. Show that many trades are becoming professions.
13. What is vocational training?
14. What are professional ethics?
15. Is a profession degraded by being commercialized?
16. Is it right to say that everybody has something to sell?
17. How may business be professionalized?

CHAPTER XI

MONEY AND PRICES

Money Has the Center of the Stage.—Business men and economists have much to say about money, for, in the social economy of the world to-day, money occupies the center of the stage. We speak of a frugal person's saving money, of a business man's making or losing money, of a rich man as worth a lot of money, and we estimate the nation's wealth in terms of money. Whether we buy or sell, lend or borrow, whether we are employer or employee, landlord or tenant, capitalist or spendthrift, rich or poor, we have to do with money and the things that money can buy.

Wealth and Money.—And yet, being neither food, shelter nor clothing, money cannot satisfy one of the primary needs of man; and if, as in the story of Midas, everything that we touched were to turn to gold, we should die in the midst of useless wealth. Only by parting with money can we get any good out of it. If we save, we buy land or other property or lend our money to the bank. If we are in business we buy to sell and buy again. Most rich men have little cash on hand. The wealth of the United States is almost thirty times as great as all the metallic money in the country. People who wish to enjoy their money spend it in one way or another, or go on playing the game of business. The old-time miser used to gloat over his hoard; his modern successor prefers to invest his money in stocks and bonds.

Importance of Money.—Evidently, then, money is not the chief end of economic life, but one of the chief means by which

business is carried on and men are able to obtain the goods and services which they want and need. Without money there would be no satisfactory measure of values; no good way of reckoning debts and credits; no accurate comparison of income and expenditures, profit with loss, service with cost; no modern banking, finance or keeping of accounts. Money acts as a series of links or knots, uniting all those who have anything to buy or sell and thus holding together the network of economic society. If all money should cease to exist, the present economic system would break down and we should have to go back to direct exchange or barter, on which basis the vast business of the modern world could not be carried on.

Inconvenience of Barter.—Money is often defined as a “medium of exchange”; that is, a third commodity which facilitates the exchange of two other commodities. There was a time in the history of man when there was no money; but in those early days there was no trade but barter, or direct exchange, and very little of that. Barter is inconvenient, because the size and value of things vary greatly and the larger commodities cannot always be divided into suitable parts. An Indian might want to trade a bear skin for two wolf skins, but the owner of the latter might have only one pelt to offer and the bear skin could not be cut in two without serious loss of value.

Then, too, the owners of different things could not always come together at convenient times and places, so as to have many persons and things in a single market. It is probable, therefore, that as soon as people began to trade to any considerable extent, they began to use some well-known commodity of convenient size and value as a medium of exchange; and thus money and trade originated and developed together.

Indian Money.—Before the coming of Europeans, the American Indians had more or less intertribal trade, and wam-

pum, furs, salt, tobacco, and other commodities served as means of exchange or money. The European colonists bartered with the Indians at first, but very soon they began to use Indian money, and the Indians, in time, learned the value of European coins. In New England and Canada the beaver skin was widely used, while the muskrat skin was used as small change.

The Hudson's Bay Company's Token Money.—The Hudson's Bay Company formerly used an ingenious and very simple system of token money in their fur trade with the northern Indians. The beaver skin was the common standard of value in that region, but as it was rather awkward for general circulation, wooden or metal tokens were adopted by mutual consent as representing or equivalent to beaver skins. When a trapper came to the post with a pack of furs, he would exchange them for beaver tokens in various ratios: say, one token for ten muskrats, one token for every beaver, five tokens for a mink, ten for a marten, twenty for an otter, fifty for a silver fox. At the end of this process the trader or factor had all the furs and the Indians had a lot of beaver tokens.

At this stage, however, the exchange was only half finished, as the Indian had no use for the tokens except for what they could buy. So he proceeded, sooner or later, to pass them back to the trader: say, one for a packet of fishhooks, two for a hatchet, five for a steel trap, ten for an iron pot, fifteen for a blanket, twenty for a gun, and so on, until all the tokens were gone. Then the exchange was completed—goods for goods—the beaver money having performed its double function as a measure of value and a medium of exchange.

Many Commodities Used as Money.—Many other commodities have been used as money. Anthropologists tell us that hundreds of different articles have been so used among various peoples. They can be classified in the following six

groups: articles of food of all sorts; implements; weapons; clothing; animals; and ornaments. The ancient Greeks, as described by Homer, estimated the value of things in terms of cattle, although they used gold and silver, by weight, as money. The ancient Romans also used cattle in the same way, as is indicated by the word *pecunia*, money, from *pecus*, cattle, from which our word *pecuniary* is derived. Slaves, too, have been used as money; also, grain, oil, salt, tea, ivory, shells, whales' teeth, soap and, of course, the various metals, especially gold and silver. In every case the commodity selected has been generally, if not universally, desirable, in terms of which people could easily think and reckon, and which could be exchanged at any time for other things. Money was not invented, therefore, at a given time and place, but gradually adopted because of the inconvenience of barter.

Aristotle on the Origin of Money.—The great Greek philosopher Aristotle thus accounts for the origin of money: "As the benefits of commerce were more widely extended, the use of a currency was an indispensable device. As the necessities of nature were not all easily portable, people agreed, for purposes of barter, mutually to give and receive some article which, while it was itself a commodity, was practically easy to handle in the business of life. Some such article, as iron or silver, was at first defined simply by size and weight, although finally they went further and set a stamp upon every coin to relieve them from the trouble of weighing it."

Payment of Money by Weight.—A case of the payment of money by weight is given in the Book of Genesis, where the patriarch Abraham is described as buying the cave of Machpelah for a burial place, the transaction being completed thus: "And Abraham weighed to Ephron the silver which he had named in the audience of the sons of Heth, four hundred shekels of silver, current money with the merchant." Here it

is not stated in what form the silver was paid, but very likely it was in small, rough blocks, wedges or ingots, as this was long before coins were made.

Origin of Coins.—After a time cut ingots were used, of uniform weight and fineness, with the seal or stamp of a merchant or prince as guarantee, and these were the first coins. One of the oldest coins is that of a King of Lydia, probably coined between 650 and 700 B. C. and may be seen in the British Museum. It is composed of an alloy of gold and silver known to the Greeks as “electrum,” and has the form of a bean, marked with a few lines and three stamps. Later coins were of various shapes, but, finally, the round disc was adopted as the best shape, and was stamped on both sides and, often, with the edge milled, to prevent clipping or tampering with it. After coins came into general use, they were paid, as now, by counting, and it was no longer necessary for merchants to carry scales for the weighing of money.

Weighing Money in Modern Times.—Yet the weighing of money has not ceased in modern times, for not very long ago, in China, merchants might be seen carrying a pair of scales and a touchstone at their belts. Gold dust was current in California in the 'fifties, and in the Klondike at the end of the nineteenth century, and probably passes as money in some mining regions at the present day. In fact, the Bank of England still pays out gold by weight, and gold is always exported or imported by weight and not by tale, that is, by tally or counting.

Qualities of Gold and Silver.—By a sort of survival of the fittest, silver and gold, especially the latter, have come to be the chief money metals in all civilized countries, with nickel, copper, bronze or other cheaper metals as small change. This is because they have certain qualities which neither cattle nor grain nor skins nor any other commodities possess in the same

degree. They have great value for their size; they are highly durable; they are divisible without loss of value; they are easily recognized; and their value is stable because they are always in demand and the annual production is but a small part of the total supply. However, in the course of years the value of the precious metals fluctuates more or less, and in this respect they are somewhat defective in the settlement of long-time obligations, or, as economists say, as a standard of deferred payments.

Relative Scarcity of Gold and Silver.—It is probable that gold was discovered and used before silver, as it was found as nuggets in river-beds; while silver was found mostly in veins and could not be extracted before the art of smelting was invented. It is quite likely, therefore, that silver was at one time more scarce and valuable than gold. Later on, however, it was more plentiful and cheaper and, therefore, more useful for small payments, although not so convenient for that purpose as iron, copper, bronze and other still cheaper metals. On the other hand, the cheaper metals are not at all convenient for large payments and, in our day, are used for small change only. Yet in ancient Sparta iron was the standard money, partly to prevent foreign trade, partly because of the poverty of the people.

Original Use of the Precious Metals.—Gold and silver were probably used first as ornaments, because of their rarity and beauty; later, being universally desirable, they were used as money. Precious stones, for the same reason, may have been used as money; but they are not so suitable in other respects, as they are not so easily recognized, they vary much in quality, they can neither be melted nor coined, and they cannot be divided without loss of value. Platinum has been used as money; but it is not suitable, as it is too rare, it is not easily recognized, and it fluctuates in value so much that it

would not be an accurate measure of value nor a good standard of deferred payments.

Five Chief Functions of Money.—Gold and silver, then, have been standard or basic money in civilized countries from time immemorial, and have been useful as money in five chief ways: first, as a medium of exchange; second, as a measure or standard of value; third, as a standard of deferred payments; fourth, as a store of value; and, fifth, as a reserve for banks and other dealers in credit. There might be some dispute as to which of the five functions have come first in order of time; but there can be no doubt that all five are of great importance.

As a medium of exchange, money is indispensable to commerce, and civilized society could hardly exist without it.

As a measure or standard of value, money enables us to compare the exchange values or prices of goods and services and makes possible the keeping of accounts. In fact, the measuring of value is as important as the measuring of length, capacity or weight, and things could not be conveniently bought and sold without it.

As a standard of deferred payments, money has to do with lending and borrowing, and should not fluctuate much, otherwise what is repaid will not have the same value as what is lent.

As a store of value, money may be buried or placed in a vault for a long time without much loss of value; whereas crops, buildings, machinery, furniture and even land will deteriorate with the lapse of time.

As bank reserves, money is the basis of credit and the cornerstone of our financial system.

In all these respects, gold and silver perform the functions of money better than any other commodities.

Bimetallism and Monometallism.—Gold and silver were

well established in most of the countries of the western world before the beginning of the nineteenth century; so we may say that these countries had the "double standard" or "bimetallism." Countries like Spanish America, where silver was the chief metal, may be said to have had a single standard, or silver monometallism; but no country had gold monometallism before the year 1816.

Origin and Extension of the Gold Standard.—In that year England established gold as the primary or standard metal, in which all other money was redeemable; so since that time England has had gold monometallism, and for more than fifty years was the only country that had that monetary system. In 1873, the United States went on the gold standard, by stopping the free coinage of silver, and we were soon followed by other countries. Before the war, all the leading countries of the world were on the gold standard; that is, all their money—silver, nickel, copper and paper—was redeemable in gold. During the war most of them issued so much paper money that they had to stop payments in gold, but they will doubtless resume gold payments, as the United States has done, as soon as they can.

Money of the United States.—While a country might get along fairly well with a purely metallic currency, all civilized countries have paper money of one kind or another. The money of the United States, for example, consists of coin and paper of various kinds and denominations. The gold coins are the double eagle, the eagle, the half eagle, and the quarter eagle. The silver coins are the dollar, the half dollar, the quarter and the dime. Then we have the five cent piece of nickel and the one cent piece of bronze. Our paper money consists of gold certificates, silver certificates, Treasury notes, United States notes (greenbacks), national bank notes, Federal Reserve notes, and Federal Reserve Bank notes.

Primary and Secondary Money.—Gold and silver certificates are merely deposit receipts for the redemption of which there is gold and silver in the Treasury, dollar for dollar. Gold certificates are more convenient than gold for large payments, and many people prefer paper money to the silver dollars, which, however, are quite popular in the west. Greenbacks are United States notes first issued during the Civil War. They are now, like the Treasury notes, redeemable in gold, although the gold reserve held for their redemption is not necessarily sufficient to cover all the notes in circulation. National bank notes are secured by deposit of bonds, and the ordinary Federal Reserve notes by a forty per cent gold reserve. All of the paper money of the United States, the silver dollars and subsidiary coins are now practically redeemable in gold. Gold, therefore, is the only primary or standard money in the United States; all other money is secondary or redeemable in gold. Gold is not in general circulation, because people seem to prefer paper money, except on the Pacific coast, where much gold was in circulation before the war.

Quantity of Money in the United States.—In the year 1920, the stock of gold money in the United States was estimated at \$2,900,000,000—about a third of the gold money of the world. On this was based as much more of paper money and silver, so that the total stock of money in the country in that year was about \$6,100,000,000, giving an average per head of \$57. In the year 1914, the stock of money was about \$34 per head, and in the year 1897 it was only \$23. Unquestionably, the remarkable rise in prices which has taken place since the year 1897 has been closely connected with the increase in per capita circulation, especially the amount of primary or standard money, on which the secondary or redeemable money is based. Thus, the value of money, like the value of other commodities, is largely determined by the supply

or the quantity of it, although the demand for it is of equal importance.

However, it is the quantity of money and credit in actual circulation, rather than the total stock, which determines its value, even as it is the quantity of wheat offered on the market, or likely to be offered which, together with the demand, fixes the price of wheat. It is interesting to note that the stock of gold in the United States in April, 1923, was almost \$4,000,000,000, or considerably more than in 1920, when prices were higher.

The Rise and Fall of Prices.—The rise and fall of prices, and, therefore, of the cost of living, since the year 1897, well shows the changes that have taken place in the value of the dollar. In the year 1897, prices were unusually low, as the country was still suffering from the hard times which followed the panic of 1893. From that time until the beginning of the war in 1914, average wholesale prices rose about 50 per cent, so that the value of the dollar fell by about 33 per cent.

Cost of Mining.—The rise in prices during this period was probably due to the increased production of gold and the increased use of various forms of credit. This increase in prices tended to increase the cost of mining, thus checking automatically the production of gold, and it seems likely that prices would have taken a downward turn, had it not been for the World War.

Inflation of the Currency.—The war caused an enormous increase in the supply of paper money and other forms of credit, especially in Europe, and brought about a rapid increase in prices in every part of the civilized world. In the United States, for example, average wholesale prices, according to Bradstreet's index number, increased more than 100 per cent, from 1914 to 1920, so that the value of the dollar in that time

had fallen more than 50 per cent. In other words, the dollar of 1920 was a 50-cent dollar as compared with its value in 1914.

Value of the Dollar.—However, wholesale prices went down almost 50 per cent from February, 1920, to June, 1921; since when they have gone up about 30 per cent; so that, in February, 1923, they were about 40 per cent above the level of July, 1914. The dollar of February, 1923, therefore, buys about what 70 cents did in July, 1914, and may be called by comparison a 70-cent dollar.

Money a Variable Standard.—This calls attention to the only serious defect in the gold standard—the fact that its value fluctuates more or less over considerable periods of time, whereas a perfect standard or measure, like standards of length, capacity, or weight should be always the same. A pound is a pound the world around, but a dollar is not the same dollar in every place, nor at all times. The value of a dollar is its purchasing power or what it will buy; so as prices rise the value of the dollar goes down, and as prices fall the value of the dollar goes up. As everybody knows, a dollar at the present time will buy far less than it did before the war, so its value has gone down. On the other hand, the dollar is worth more to-day than it was in the spring of 1920, as prices have fallen.

Effects of Rising and Falling Prices.—Such fluctuations in prices, while beneficial to some people, are injurious to others, and are bad for the country as a whole. The marked fall in prices which took place from 1873 to 1897, while good for creditors and people of fixed incomes, was disastrous to mortgagors and other long-time debtors, who had to pay more goods and labor for a given amount of money due. It was discouraging to business men, too, who found it hard to do business on a falling market.

Debtors and Creditors.—For example, a man who had a

fixed income of \$1,000 a year from 1873 to 1897, was far better off in 1897, because prices were lower and he could buy more for his money. But a farmer who had borrowed \$1,000 in 1873 and did not pay off the mortgage until 1897, had to raise almost twice as many bushels of wheat and other farm produce to pay the debt, as prices had fallen about 50 per cent. Again, the lender or creditor gained what the borrower or debtor lost, except in so far as he had accepted lower rates of interest, but that did not save a whole generation of farmers from the serious consequences of falling prices.

Evils of Changing Prices.—On the other hand, the rising prices after 1897 and especially after the World War began, were helpful to debtors and to business men, for a time, although bad for creditors and people whose incomes did not keep pace with the increased cost of living. Also, the reaction which had to come sooner or later, and from which we are now suffering, has been bad for almost everybody. Therefore, an ideal monetary system, from the point of view of deferred payments and good business, would be one that should keep average prices stable, or permit of slowly rising prices.

Remedies Suggested.—Many suggestions have been made for improvement of the monetary system in this respect, but most of them seem to be unsound or impracticable. Bimetallism, as proposed in the early nineties, by permitting the free coinage of silver and thus increasing the quantity of primary or standard money, would have caused prices to rise far more than they did from 1897 to 1914, and could not have prevented the war-time inflation. A system of government paper money, as proposed by the greenbackers after the Civil War, would have put the monetary system in the hands of politicians and inflationists. The proposal of Professor Fisher for paper money redeemable in a variable quantity of gold looks promis-

ing, but it would require an international agreement and it would be hard to induce long-time debtors and creditors to agree to it. Therefore, in the absence of any immediate prospect of an ideal monetary system, it would be well for both lenders and borrowers, the Government included, to beware of long-time debts.

The gold standard has temporarily broken down in many European countries, because of the vast issues of irredeemable paper money. In returning to it, there will doubtless be an increased demand for gold, more or less repudiation of obligations, and, possibly, another period of falling prices. And yet, it seems likely that the gold standard, coupled with a more scientific adjustment of credit, acting as a sort of compensating balance to stabilize prices, will continue for a long time to come.

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QUESTIONS AND TOPICS

- 1 Distinguish between wealth and money.
- 2 Read the story of Midas
- 3 How much gold money is there in the United States? What is the total wealth of the United States?
- 4 Explain the inconvenience of barter
- 5 What various commodities have been used as money? Why are some more satisfactory than others?
- 6 Read the history of coins and coinage.
7. What is payment by tale?
- 8 Why are gold and silver so useful as money?
- 9 Why is silver seldom found as nuggets in river-beds?
- 10 What was the original use of precious metals?
- 11 'Would precious stones be useful as money?
- 12 Mention and explain the five chief functions of money
- 13 What are bimetalism and monometallism?
- 14 What is standard money?
- 15 Mention the chief kinds of money in the United States. Obtain samples, if possible, and describe them.
- 16 Are greenbacks money?
- 17 Is paper money real money?
- 18 What is the relation of money to prices?
19. Would prices rise much if gold became as plentiful as lead?
- 20 Would prices fall much if gold became as scarce as diamonds?
- 21 Why do prices rise and fall?
- 22 What is inflation?
- 23 Have we had inflation in the United States?
24. How much inflation have they had in Europe?
- 25 Is cheap money good for a country? Is dear money good?
26. Should the gold standard be invariable?

CHAPTER XII

CREDIT AND BANKING

; **What Is Credit?**—In the business world there are two ways in which one may obtain goods or services—for cash or on credit. When a person pays cash for anything he gives money, or its equivalent, when he gets it on credit, he gives a promise to pay at some future time. It is possible to obtain things in this way because the seller or lender believes that the buyer or borrower will pay the debt when due. The very word *credit* indicates this, as it is derived from the Latin *credere*, to believe. Credit, therefore, is a system of deferred payments based on good faith or confidence.

The Basis of Credit.—The creditor's confidence must be distinguished from mere credulity, as it is usually based on the debtor's character and business ability, reinforced, in many cases, by his property or income, and backed up, when necessary, by the arm of the law. To be sure, the giving of credit involves some risk, and there are many cases of misplaced confidence; but debts are usually paid, and credit plays an increasingly important part in modern business life.

Two Classes of Borrowers.—Borrowers may be roughly divided into two classes—spenders and business men—although some are partly in one class and partly in the other. The spenders borrow because they cannot or think they cannot wait until they have money of their own. Perhaps they are buying furniture, phonographs or automobiles on "easy" payments, or otherwise living beyond their means; perhaps they have had sickness or other misfortune, with nothing laid by for a

rainy day; possibly they are gradually mortgaging or squandering their property, or borrowing on the expectation of an inheritance. Whatever the reason, such people are apt to come to the end of their credit, sooner or later. The wonder is that they continue so long, and that their total borrowings are so large.

Business Men as Borrowers.—Those who borrow to carry on business, and thus to increase their wealth, are the more important class of debtors and the mainstay of the credit system. They are productive borrowers, because, in their hands, money makes money, and the country's wealth is increased, whereas, in the hands of the spenders, the country's wealth is used up, leaving nothing to replace it. Fortunately, the credit grantors know this, and hold the spenders well in hand. But they lend freely, if conservatively, to competent business men, who know how to make two blades of grass grow where one grew before

Lending Where There Are No Banks.—Many examples could be given of business loans in places where there are no banks. In northern Canada it is common for traders to make advances to trappers—food, clothing, equipment—in prospect of the winter's take of furs. In Newfoundland, merchants do the same for fishermen; and in Colorado and Alaska, people often grubstake prospectors or miners for a share in their claims.

All of these borrowers might, of course, get along without the loans. They might be content to do business in a small way until, after years of working and waiting, they had saved enough to buy a proper equipment. Meanwhile, other people, less active and experienced than they, might have plenty of idle money, while the industries of trapping, fishing and mining remained undeveloped, for lack of the partnership between experience and capital which credit alone could provide.

Agricultural Credit.—So also in agriculture. Many a pioneer has spent a lifetime in the backwoods, laboriously clearing away useless timber and still more useless stumps, when the loan of a few thousand dollars would have speeded up the process, giving him quickly a fine farm that would soon have paid both interest and principal. Many a farmer has endured for years a malaria-breeding swamp, which a thousand dollars' worth of tile drains would have changed into the most fertile land on the place. Many a farmer's wife has worn herself out in an old-fashioned dairy, when a cream separator costing a hundred dollars would have paid for itself many times over. So, also, mowing machines, reapers, silos, and other improvements in agriculture, which, sooner or later, if well planned and managed, pay for themselves and amply justify short- or long-time loans.

Risk of Borrowing and Lending.—Of course, it is risky to borrow if one is not intelligent, far-sighted, prudent, frugal, strong and courageous, but when one has all the qualities that make for success in business, with some property of one's own, the risk is reduced to a minimum, and the chance of profit is correspondingly increased. In fact, most of the prizes of life come to far-sighted, enterprising and adventurous people, and not to those who lack vision and demand absolute security. In the words of the old proverb: "Nothing venture, nothing have."

Credit Brings Savers and Business Men Together.—In this connection it should be noted that there are in every considerable community various kinds of people, who, when they work together, largely make up for one another's shortcomings. At least, it is so in the giving and receiving of credit, for there are people who save but cannot manage, and there are people who can manage, but cannot save as much as they can profitably use. When these two classes are apart, the

community is slow and unprogressive; but when they work together, the latent resources of the community are developed, with progress and prosperity for all concerned.

Private Banking.—When there is no banker in a given community, people often run accounts at the general store, which, in its turn, gets credit from wholesalers, manufacturers or outside bankers. When people desire loans they usually go to some rich man in the neighborhood—the storekeeper, the miller, or some wealthy farmer—who may have funds to spare or may know where they can be obtained. Possibly, the money-lender may borrow from one set of people to lend to another, in which case he is really a private banker on a larger or smaller scale. At any rate, a rich man of the right sort is of great service to the community in which he lives, helping people to invest their savings and making it possible for enterprising farmers and other business men to carry out their plans.

When a Community Gets a Bank.—But the occasional activities of one or more rich men cannot satisfy the needs of a growing community, and so, sooner or later, the community will have a bank—an institution or agency specially organized for the giving and receiving of credit. Very likely, the bank's capital is subscribed by the same rich men and small savers who have hitherto had money to lend, but now, with their combined resources, plus the money of the depositors, and their improved financial standing and connections, they can do a far larger credit business than before and at less cost to the borrowers.

When the bank is ready for business, it may have only a few thousand dollars of paid-up capital on hand; but presently a number of people open accounts, so that deposits increase and with them increases the lending power of the bank. As the depositors usually leave their money with the

bank for some time, it is perfectly safe for the bank to lend a large part of it, keeping only such cash reserves as may be needed for the payment of checks and other demands from time to time.

Moreover, as people become accustomed to the use of checks, they draw out comparatively little cash, and many of the checks with which they pay their bills are very soon deposited in the bank. Much of the cash, too, returns to the bank through the stores or other channels of trade. Thus, money, like a homing pigeon, leaves the bank from time to time and, after circulating more or less, returns to it again.

Lending Increases Deposits.—Strange to say, it is by judicious lending that a bank can best increase its deposits and become a prosperous concern. For example, when a farmer in the spring borrows \$1,000 to put in his crop and to carry him through the summer, he usually receives a deposit credit which he does not immediately draw out in cash. When he pays his local bills, whether to the storekeeper, the carpenter, the saddler, or the farm laborers, most of the checks and cash soon return to the bank, although what he pays to distant creditors will be taken away from the community for a while. But in the fall, when the crops are sold, money comes back, the loan is repaid, and the farmer's profits are deposited in the bank. Then, very likely, he obtains a new loan of \$1,500 for the feeding of cattle or sheep during the winter, and thus loans, deposits, the circulation of money and checks, and the volume of business increase in that community.

Loans to Merchants.—The case of the storekeeper is not essentially different. Perhaps he buys \$1,000 worth of goods and, in order to get his discounts, he borrows the money at the bank, say, for ninety days. The checks which he sends to manufacturers and jobbers in other towns are soon cashed and the bank's cash reserves are considerably reduced, for a

time. However, in ninety days the merchant sells enough goods to pay his note, deposit his profits, and, probably, orders more goods and obtains a still larger loan. Thus the bank, by mobilizing and creating credit, helps both farmers and merchants to expand their business; and if a flour mill, a saw mill, a tannery or a brick factory are in the community, it does the same for them.

Duration or Life of a Loan.—The duration or life of a loan varies with the needs of the borrower, which depend upon his production period. Farm paper is apt to run for six months, from seed-time to harvest, and, in case of a bad harvest, may be extended for a much longer time. Commercial paper, on the other hand, normally runs from sixty to ninety days, as a merchant's turnover is usually rapid and he is continually selling goods and taking in money, with which he can pay his bills. Other loans are for thirty days or less; while brokers and speculators, holding stocks or bonds or wheat that can be readily sold, commonly borrow on call, paying their notes when convenient, or when the bank needs the money.

Liquid Assets.—Then, too, there are long-time or investment loans, with which the country banker has to do, although the funds for such purposes must be obtained from people who can wait for their money, and not from depositors who wish to have a checking account. As most of the liabilities of a commercial bank are deposits payable on demand, the assets of the bank should not consist of mortgages or other long-time loans, but should be "liquid" or convertible into cash on short notice. Call loans and short-time loans are liquid assets; so also are government bonds and some industrial securities; but a bill of exchange, payable on demand at some good bank, is the most liquid of all. So important is this principle that it is often said that the art of banking consists in being able to distinguish between a bill of exchange and mortgage.

Credit for Credit.—When a business man borrows at the bank he gives his note for thirty, sixty or ninety days, or for six months, as the case may be, and usually receives from the bank a deposit credit, payable on demand. The transaction is, therefore, when reduced to its simplest terms, an exchange of credit for credit; that is, an exchange of a promise to pay at a stated time for a promise to pay on demand.

Cash Reserves.—But, inasmuch as business men, taken as a whole, are satisfied with the right to obtain cash without exercising that right, loans and deposits usually increase together, and only in time of panic are deposits greatly and suddenly reduced. Therefore, no bank keeps a cash reserve equal to its deposits, if it did, it could lend but little, would be of little use to the community, and would make no money for itself. Of course, a bank must keep a cash reserve sufficient to meet the demands for cash from day to day, and thus the amount of credit that can safely be created is limited by the supply of money, on which the whole system of deferred payment rests.

Various Credit Agencies.—The country banker, like the country merchant, physician or lawyer, carries on a general business, doing many things through the bank, or on the side, which in the city are the work of specialists. In the city we have commercial banks, savings banks, trust companies, investment banks, bond houses, building and loan associations, insurance companies, pawnbrokers and other institutions and persons engaged in the buying and selling of credit.

Then, too, there are mercantile agencies, like ^BDun's and Bradstreet's, credit men's associations, collection agencies and what not—all connected with the complicated system of deferred payments, the ramifications of which enter into every part of the body economic. And yet, with all this complication

and specialization, the fundamental principles of credit and banking, in city and country, are the same.

Deposits Circulate as Checks.—Inasmuch as credit involves a promise to pay money, and the banks are careful to keep cash reserves sufficient to redeem their promises on demand, the banks' promises, whether as bank deposits or bank notes, serve as a substitute for money and circulate as such, more or less. Bank deposits, represented by checks, have a very limited circulation, as they must be endorsed by those who pass them and should be presented for redemption without delay. Bank notes, however, having special security back of them, and being under governmental supervision and regulation, circulate freely all over the country, and nobody but a banker ever thinks of presenting them for redemption.

Three Functions of a Bank.—This calls attention to the fact that the making of loans is not the only service which a bank renders to the community, for it is useful also as a place where money may be safely deposited and as an institution which supplies a good substitute for money when needed, especially in the spring and fall of the year, when business is active. These three banking functions—the receiving of deposits, the making of loans, and the issuing of notes—are not all of equal importance, and the third is not performed by all banks. In the United States, the national banks and the Federal Reserve Banks have the exclusive right to issue notes. Banks perform other services, such as the sending of money from place to place, and the collection of bills; but deposit, lending and note issue are the three great banking functions.

Relation of Deposits to Loans.—In the history of banking, it is probable that safe deposit was the first of these services rendered, and that goldsmiths with their strong boxes were the earliest bankers. After a time, the goldsmiths found, that they could safely lend a part of the money entrusted to them

and even issue notes; and thus modern banking arose, and the making of loans became even more important than the receiving of deposits.

Deposits and Notes Both Used as Money.—As to supplying the community with money, or a substitute for money, even state banks, which issue no notes, do this, by allowing their customers to draw checks upon their deposits. A bank note is a bank's promise to pay on demand, and circulates as money; but a check drawn by a depositor is almost as good as a bank note, and has a limited circulation. In fact, far more payments are made by check than by coin or paper money. Bank notes and deposits, then, are alike in that they serve as a substitute for money, in that they are payable on demand, and in that the bank must keep sufficient cash reserves for their redemption.

The Banks of the United States.—The United States is well supplied with banks of several kinds, large and small. In the year 1921, there were 8,154 national banks, 18,875 state banks, 1,601 savings banks, 1,474 loan and trust companies, and 708 private banks. The relative importance of the various types is pretty well indicated by their deposits, which, in round numbers, were as follows: national banks, \$12,400,000,000, state banks, \$10,800,000,000; savings banks, \$6,000,000,000, and private banks, \$133,000,000—making 30,812 banks in all, with capital, surplus and undivided profits amounting to \$6,300,000,000, and individual deposits of \$35,000,000,000.

The Federal Reserve System.—All of the national banks and some of the state banks are members of the Federal Reserve System created by act of Congress in 1913. At the head of the system is the Federal Reserve Board, under which there are twelve Federal Reserve Banks. These twelve banks are located at New York, Boston, Philadelphia, Richmond, Atlanta, Cleveland, Chicago, Minneapolis, St. Louis, Kansas

City, Dallas, and San Francisco. Each Federal Reserve Bank is a bankers' bank for its district, receives deposits from the member banks, makes loans to them upon request, and issues Federal Reserve notes

Panic Averted During War.—The Federal Reserve Bank, therefore, does for the member banks of its district what a local bank does for the business men of its community, and there can be no doubt that the member banks have been greatly helped by their connection with the Federal Reserve System. In fact, we should probably have had a great bank panic during the World War if that system had not been established in the nick of time, so that the member banks could get loans from the Federal Reserve Banks and, in turn, lend to their own customers.

A Bankers' Bank.—The Federal Reserve Bank in a given district performs all the three chief banking services for the member banks: receiving deposits, making loans and issuing notes. All the member banks have deposits with the Federal Reserve Bank, in fact, most of their legal reserves are on deposit there. Because of these deposits, it is possible for the Federal Reserve Bank to make loans to any member bank needing accommodation; and thus loanable funds are readily transferred from one part of the district to another, or, in fact, from one part of the United States to another, as they may be needed.

Private Ownership with Public Control.—Without entering into the details of our banking system, it may be said that it now centers about the Federal Reserve Banks, which are controlled by the Federal Reserve Board, which is appointed by the President of the United States. It is, therefore, a system of banks privately owned but under public control. Even the state banks and other banking corporations which are not members are connected with the system through

member banks, and thus are under a large measure of governmental control.

This centralized control has its advantages and disadvantages. It is beneficial in that it permits of expansion according to the requirements of business, but it might be very injurious in case the Federal Reserve Board, under political pressure, were to bring about excessive expansion or contraction of bank credit. It is to be hoped that the Board will always be composed of men of great wisdom and experience and a high sense of the responsibility of their important office.

Credit Based on Gold Reserves.—Another notable feature of our system of credit and banking is that it is definitely based upon our stock of gold, most of which is now in the vaults of the Federal Reserve Banks and the United States Treasury. Bank deposits are payable in "lawful money"—gold or silver coin or United States notes. The national bank notes are secured by deposit of government bonds and are also redeemable in "lawful money" on demand. The Federal Reserve notes are redeemable in gold, and are secured by a 40 per cent gold reserve and the credit of the United States. The greenbacks are similarly secured, and even the silver dollars and the subsidiary coins, as their bullion value is less than their face value, are really credit money redeemable in gold.

Therefore, the whole credit system of the United States—commercial paper, national bank notes, Federal Reserve notes, greenbacks, silver dollars, subsidiary coins, and all other credit and credit instruments—rests upon a material basis of gold reserves which are seldom seen, but which are none the less indispensable to the stability of the whole structure. The sad experience of Germany, Russia and other countries of Europe with vast issues of irredeemable paper is sufficient proof of this.

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QUESTIONS AND TOPICS

- 1 Give the derivation and meaning of the word *credit*
- 2 Credit grantors often speak of the four C's character, capacity, capital, and collateral Explain them and state which you think most important
- 3 How much should we spend and save?
- 4 Why do business men borrow?
- 5 What do you think of buying an automobile on weekly or monthly payments? What of buying a house that way?
- 6 What is the difference between an honest money lender and a money shark?
- 7 Does a money lender injure or help the borrower?
- 8 How much can a business man safely borrow?
- 9 Is it possible to extend credit to farmers too freely?
- 10 "Credit brings savers and business men together." Explain.
- 11 Of what use is a bank to a community?
- 12 Show that lending usually increases deposits.

- 13 What is the life of a loan?
- 14 What is a business man's production period?
- 15 Why do farmers often borrow for six months, rather than 30, 60 or 90 days?
- 16 What are liquid or fluid assets?
- 17 A bank loan is usually an exchange of credit for credit. How so?
- 18 What are cash reserves?
- 19 Make a list of all the credit grantors in your community.
- 20 Bank deposits circulate. Explain.
- 21 Mention and explain the three chief functions of a bank.
- 22 Were the goldsmiths guilty of breach of trust when they lent money deposited with them?
- 23 Explain the Federal Reserve System.
- 24 The whole credit system of the United States rests upon a gold basis. Explain.

CHAPTER XIII

WORK AND WAGES

Work and Play.—It is not always easy to distinguish between work and play, but in general we may say that play is activity, physical or mental, for its own sake; while work is activity for some other purpose. Some activities are clearly play, such as running or jumping for the joy of exercise; and some are nothing but work, as underground mining, stoking a furnace, or digging a ditch on a hot day. Some, again, are part work and part play, such as the work of a professional ball player, or a singer who loves his art, or a merchant who enjoys the game of business. Work can be play in the early hours of the day or a joyous activity all the time, if the worker is sufficiently interested in it. Play can become work if too intense or unduly prolonged or taken up under compulsion. Also, some activities are play to one person and work to another, even as "one man's meat is another man's poison."

Man as a Working Animal.—If we ask whether man is by nature a working animal, the answer is yes and no. Like the lower animals man instinctively provides for himself and his family. Moreover, the human infant is more helpless than the young of most of the lower animals, and its infancy is prolonged, so man has had to work more continuously than any other animal, except, perhaps, such patient slaves as ants and bees. Then, too, in the temperate and arctic regions, if not in the tropics, man has been forced to work and to save on pain of death. But he easily falls back into idle ways; for, when the whip and spur of hard necessity are removed,

most young men will rather play than work, and most old men will rather rest than play.

Origin of Slavery.—The dislike of work, coupled with the desire to obtain the fruits of labor, probably explains the origin of slavery, on which ancient civilization was so largely based. In the hunting and fishing stage, most of the work was done by members of the family or horde, especially the women, and it was inconvenient to keep slaves or to keep them at work. Prisoners taken in war were usually killed and sometimes eaten. In the pastoral stage there were some slaves, as they could be assigned to the care of flocks and herds. But it was in the agricultural stage that slavery flourished, as there was much work to do and slaves in a settled community could be easily guarded and put to work. It was, perhaps, in the school of agriculture, whether as freemen or slaves, that men learned to work hard and continuously, as the industrious do to-day.

Slavery in Ancient Times.—In ancient Egypt there were many slaves, who were used in agriculture, irrigation, the building of cities and great monuments. In the golden age of Athens (B. C. 480 to 430), the population of Attica was about 200,000, of whom probably 160,000 were slaves, making it possible for the freemen to enjoy much leisure and to create those works of literature, philosophy and art which made the generation of Pericles immortal. Rome, too, in her many wars acquired millions of slaves and enormous tributes from the subject provinces, enabling the rich to live in great luxury and the populace or proletariat to be fed and amused at public expense.

Serfdom or Villeinage.—After the fall of Rome, slavery continued to exist in western Europe, but was largely replaced by serfdom, under which the unfree peasant was bound to the soil and obliged to do certain work and make stipulated pay-

ments to the lord of the manor, but had limited property and personal rights. At the time of the Survey for Domesday Book (A. D. 1086), 38 per cent of the population of England held land in villeinage or servile tenure. The villein or serf had no legal right to his land, but custom and the lord's own interests protected him so long as he did his work and paid his dues.

Duties of the Serf or Villein.—The villein's services varied greatly in different manors, but they were mainly of three kinds. First, he was required to cultivate the lord's demesne on two or three days a week, though not always for the whole day. This work included plowing, carriage, hoeing, mowing, sheep-shearing and other farm work. Second, there were extra services at harvest and other seasons when, frequently, the lord provided feasts or "love-meals" to encourage good work. Third, the villein had to make various contributions to the lord in money and kind—poultry at Christmas, eggs at Easter, grain at Martinmas, toll for the grinding of corn, and so on. Apart from these and other services and payments, together with restraints on personal liberty connected with his servitude, the villein was usually allowed to keep any personal property that he could accumulate, although even that, in strict legality, belonged to the lord. Moreover, as the normal holding was a virgate of about thirty acres, a villein had little chance of growing rich.

Serfdom Passes Away.—Serfdom was, naturally, disliked by the peasants, and their unwilling service was unsatisfactory to the lord of the manor, so it gradually passed away and was replaced by tenancy and the modern system of free labor. In England it had pretty well disappeared by the year 1500; in Russia it continued until the emancipation of 1861. Of course, there has been more or less free labor from the earliest times, side by side with slavery and serfdom.

Is the Free Laborer a Wage Slave?—Socialists call the free laborer of the present day a wage slave; but in so doing they overlook the frightful tyranny and misery of ancient slavery, and the degradation of the medieval serf. Still, it must be admitted that many freemen, unable to take care of themselves, are little better than serfs, and that common laborers in overpopulated countries, like China and India, receiving but a few cents a day, get less of the necessities of life than slaves should have, to keep them in good condition.

Classifications of Workers.—Socialists also like to speak of the working class as distinguished and separated from employers and capitalists, but in America at least, there is no clear-cut working class, as almost all employers do work of one kind and another. For this reason, it is hard to classify the workers of the country, although four main classes may be fairly well distinguished.

First, the organizers, active stockholders, and directors of great corporations, many of whom draw salaries and, therefore, might be classed as employees, although, as owning stock, they may also be classed as employers.

Second, farmers, manufacturers and merchants doing business on a large scale, but working side by side with their employees. These, also, are both employers and workers.

Third, a large class of independent, self-directing workers, such as small farmers and craftsmen, using their own capital, but employing little or no labor. The typical village blacksmith is in this class; also the small shoemaker, cobbler, carpenter, tailor and shopkeeper. These people are small capitalists; although, as their income is derived chiefly from labor, they are closely related to the class of employees.

Fourth, employees. Some of these, drawing large salaries, owning some property and hoping for more, are closely related to the first and second class of workers. However, most of the

workers in this class have little property and nothing to sell but their labor. This lower and larger section is the working class of the United States, if we may say that we have a distinct working class, and it includes fully two-thirds of all who are gainfully employed.

Classes of Employees.—Employees themselves may be roughly divided into hard-handed and soft-handed workers, with skilled, semi-skilled and unskilled in each group. Locomotive engineers, carpenters, bricklayers, plumbers and other craftsmen are good examples of skilled employees in the former group, while brakemen, agricultural workers, lumbermen, section men and casual laborers represent the semi-skilled and unskilled in this group. Among the soft-handed workers, corporation managers, civil engineers, expert salesmen, physicians, lawyers, journalists, teachers and the like, are, or ought to be, highly skilled; the average run of clerks and salespeople are at most semi-skilled; while there is, unfortunately, a large number of incompetent soft-handed workers, who have no special training of any kind, and whose wages are lower than those of common hard-handed labor.

Demand and Supply of Labor.—Wages are determined chiefly by the demand for labor and the supply of it, an increasing demand tending to raise wages, an increasing supply tending to pull wages down. As a rule, demand for labor comes from surplus production. If a farmer could raise no more than enough to feed his family, he could employ no agricultural labor, nor could he buy any manufactured goods and thus employ city labor. Of course, if a farmer employs a hired man he will probably raise a large crop, and thus the hired man will usually earn his own wages, and more.

Demand for Labor Is Limited.—The supply of labor, therefore, may create its own demand, although the demand is limited by the increased production. Evidently, a small farmer

could not employ many laborers, except at starvation wages, as each additional laborer would add less and less to the total crop. Also, there are similar limits to the demand for labor on the part of large farmers, merchants and all other employers. If a miller, for example, who employs 100 workers could employ 200 at a profit, he would gladly do so, but there are limits to the expansion of the milling business in a given locality, so the miller's demand for labor is limited. In other words, there is a point, in the life of all business concerns, beyond which it does not pay to expand or to employ additional labor.

Wages High in New Lands.—Fortunately for us, the United States, Canada, Australia, New Zealand and other new countries have great natural resources not fully exploited or developed, so that there is a large surplus product available for the purchase of imported goods or for the employment of labor at home. But in most European countries, and in populous but backward nations like China and Russia, there is no such surplus product and no considerable profit to be gained by employing additional labor, except at lower wages. In these countries, therefore, the demand for labor is relatively slack, wages are low, and only increased efficiency and productivity of labor and management can improve the situation.

The Supply of Labor.—The supply of labor in a given country depends on the population, or, to be more exact, on those who are gainfully employed. In the year 1900 the population of the United States was 76,000,000, of whom 29,000,000 were gainfully employed, being an average of about two workers to every five persons. In 1910 the population was 92,000,000, of whom 38,000,000 were gainfully employed; in 1920 the population had increased to 105,000,000 and the gainfully employed to 42,000,000.

How the Supply of Labor Increases.—The supply of labor may be increased in two chief ways: by the natural

multiplication of the population and by immigration; but, as immigration has been much restricted since the year 1914, the increase in the supply now depends chiefly on the natural multiplication of the population. To be more accurate, it is equal to the number of workers who pass yearly from school into the industrial army, less the number who die or retire from active work. And as the supply of workers is now increasing less rapidly than formerly, we may expect wages to increase in this country, especially the wages of common hard-handed labor.

Elasticity of the Supply of Labor.—There is another and less important way in which the supply of labor may and does increase, especially in times of unusual demand. Before Christmas there is an unusual demand for clerks in retail stores, and many housekeepers, school-children and others take temporary employment and so earn their Christmas money. During the war, too, the supply of labor in munitions factories and elsewhere was recruited from such sources, but in normal times the number of the gainfully employed in the United States is about 40 per cent of the total population.

Distribution of the Supply of Labor.—We must distinguish between the supply of labor as a whole and the supply in particular occupations. As young people leave school, they enter one occupation or another, as opportunity or the wishes of their parents or their own preference may dictate. Very often young people make a serious mistake in taking what seems at first sight to be a good job, only to find later that they have entered a blind alley, from which it is hard to retrace their steps. Others, more far-sighted, learn a good trade, thus placing themselves among the skilled and well-paid craftsmen. Others, able to wait still longer, take years of schooling in preparation for the learned professions, or the higher walks

of business, or merely to obtain the satisfaction of a liberal education.

Mobility of Labor from Place to Place.—Labor is more or less mobile in that it can move from place to place and from occupation to occupation. Young people have a great advantage in both respects over older people, especially those who have families to support. Mobility tends to make wages equal in every part of the country and in all occupations. If the wages of unskilled labor, for example, were considerably higher in Chicago than in New York, a number of young men would move to Chicago, thus tending to raise wages in New York and lower them in Chicago until they became almost equal, all things considered.

From Trade to Trade.—Again, if wages are higher in the printing trade than in plumbing, plumbers might not leave the plumbing trade, but young men leaving school would be more strongly attracted toward printing, the supply of printers would increase, and it would be hard for the printers' union to have their wages raised. Knowing this, many unions try to restrict the number of apprentices, and to have wages fixed by collective bargaining, rather than by supply and demand. Inasmuch as mobility is more or less restricted, and workers are unequal in ability, wages vary considerably in different places and very greatly in different occupations. If, however, all men were equal and perfectly mobile, and there was keen competition among employees and employers, wages would be equal in all parts of the world.

Variations in Rates of Wages.—For one reason and another the supply and demand and the remuneration of workers vary greatly in various occupations. Some of the best paid among the hard-handed workers are divers, steeplejacks, some steel workers and others engaged in difficult or dangerous occupations. A larger and more representative class of hard-handed

workers are locomotive and stationary engineers, printers, carpenters, bricklayers, machinists and other craftsmen, for whose services there is large and fairly constant demand, while their numbers are limited by the requirements of the trades or the restrictions of the unions

Wages of Artisans.—In Chicago, in May, 1921, the union scale of wages of carpenters, lathers, bricklayers, stone masons, painters, plasterers, plumbers, English compositors, portable and hoisting engineers and a number of other artisans were \$55 per full-time week of 44 hours, apart from overtime or night work. The wages of some trades were less than this. Blacksmiths received from \$40 to \$55; iron molders, \$43.20; machinists, \$27 to \$49 50.

Wages in Various Places.—It is interesting to note that union wages vary considerably in different parts of the country. In Chicago, Columbus, St. Louis and Portland, Oregon, carpenters were receiving \$55 per full-time week; in New York, Philadelphia, Butte, Denver and San Francisco, \$49 50; in Cincinnati, Fall River, Omaha, New Orleans and Los Angeles, \$44; in Boston, \$40; Grand Rapids, \$37 40; Birmingham, Alabama, \$33, Nashville, \$28 16. The variation is not so great when we consider cost of living as well as money wages; but even allowing for that, it is evident that there is not perfect mobility of labor as between different parts of the United States.

Wages of Common Labor.—At the bottom of the wage scale for hard-handed labor are the unskilled or casual laborers, for whose services there is large demand, especially in the spring and summer months; but they have been so numerous, relatively, that their wages have been low—barely half of what the craftsmen usually receive. Single men may get along fairly well on such wages; also large families with two or more workers; but families dependent on a single unskilled

laborer are in a bad way and cannot maintain the traditional American standard of living. However, since the beginning of the World War, there has been an increasing demand for this class of labor in this country; and, as immigration has been restricted, such labor is becoming relatively scarce and wages have risen considerably and are likely to increase still more as prosperity returns.

War-Time Wages Continue.—Before the war, the wages of hod-carriers and plasterers' laborers in New York City were \$16.50 per week; in 1921, hod-carriers received \$38.50 and plasterers' laborers \$41.25 per week. Taking averages for all the chief cities of the United States, the wages of carpenters increased by 92 per cent from 1914 to 1921, bricklayers, 67 per cent, engineers, 69 per cent, plumbers, 76 per cent, plasterers, 76 per cent, cement finishers, 80 per cent, and so on throughout the list of skilled craftsmen. But in the same time the wages of building laborers increased by 109 per cent; cement finishers' helpers, 124 per cent, hod-carriers, 133 per cent, and plasterers' laborers, 156 per cent.

Gains of Manual Labor.—Even when the cost of living is taken into account, which has increased about 60 per cent since 1914, the economic condition of hard-handed labor has greatly improved, although the unskilled have gained more than the skilled. During the same period of rising prices, teachers, journalists, clerks and salaried people in general have suffered a serious reduction in real wages, or wages measured in purchasing power, as their salaries have increased much less than the cost of living. Also, the farmers, as a class, have suffered, as the prices of farm produce, from 1914 to 1921, have increased less than other commodities.

Wages of Soft-Handed Workers.—The unskilled, soft-handed workers, many of whom are women and children, have the lowest wages of all; and a man who, through physical or

mental weakness, has to compete with them is certainly unfortunate. And yet, in the past, business has recruited its semi-skilled and skilled workers largely from this class, and many of the leaders in the business world of to-day were at first young fellows of little schooling and less practical experience. Such chance of promotion, together with a certain social standing attached to salaried labor, has led many workers into this class, who would have done better as skilled or even unskilled manual laborers. But the times are changing, and young people without a high-school education, if not a college training, are now severely handicapped in the contest for the prizes of the business world.

Remuneration of the More Highly Skilled.—Many more examples could be given to show that wages, salaries, fees and other remuneration of workers are determined chiefly by supply and demand. Managers of great business concerns receive high salaries because there are so few who can do such difficult and important work. A great surgeon commands high fees because he is one among a thousand. So, also, with great lawyers, engineers, authors, actors, singers and the rest—they are few in number and their services are in great demand. And what is true of business and professional people is true also of skilled and unskilled manual labor, the exchange value of which is regulated chiefly, though not wholly, by supply and demand.

Control of Wages.—That is not to say that organized labor, the government and employers can do nothing to raise wages above the competitive level. Printers, locomotive engineers, railway conductors, the building trades, miners and other well-organized laborers have unquestionably forced their wages up by the methods of collective bargaining, though partly at the expense of unorganized labor. Their success has been largely due to the fact that they were the first in the field.

But since pressmen, brakemen, section men, hod-carriers, agricultural laborers and all the rest of the semiskilled and unskilled have begun to organize and to demand higher wages, and since the immigration of common labor has been restricted, the monopoly of the old aristocracy of labor has been greatly weakened.

Relation of Wages to Cost of Living.—They must now divide up with the unskilled, who are more numerous than they, and it looks as though a general increase in wages in the railways, the mines, the factories, the farm and other lines of business could not take place without increasing the cost of living, thus taking away from the worker with one hand what has been given him with the other. In other words, to demand a general increase in wages without at the same time increasing the product of industry is very like trying to lift one's self by one's boot straps.

Importance of Increased Production.—The present situation demands cooperation between organized labor and the organized employers for increased production and fair distribution of the social income. Quarreling about division, merely, will reduce the joint product and give less, instead of more, to all concerned; and, if carried too far, may break down the present social-economic order, involving both employers and employees in common ruin.

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QUESTIONS AND TOPICS

- 1 Distinguish between work and play, giving example of each.
- 2 Is man by nature a working animal?
- 3 How did Athens obtain so many slaves?
- 4 What was the origin of serfdom or villeinage?
- 5 Distinguish between a serf and a slave
- 6 Why did serfdom pass away?
- 7 Is the free laborer a "wage slave"?
- 8 Make a classified list of all the workers you know.
- 9 Is an employer a worker?
- 10 Is a capitalist a worker?
- 11 What is the American "working class"?
12. What is the law of supply and demand?
13. How are wages determined by supply and demand?
- 14 Are they determined in any other way?
- 15 Where does the demand for labor come from?
- 16 Where does the supply come from?
- 17 Can the supply and demand expand and contract? Are they elastic?
- 18 What is mobility of labor?
19. What are the two kinds of mobility?
- 20 How has the restriction of immigration affected labor?
- 21 What is the present immigration law?

CHAPTER XIV

LAND AND GROUND RENT

Land a Gift of Nature.—Land is a gift of nature; but nature presents it in the raw state, leaving to man the task of improving and utilizing it as best he can. Four hundred years ago, the natural resources of America—soil, mines, forests, fisheries, water power—had scarcely been touched, and a few hundred thousand Indians—possibly two or three millions—obtained a precarious living by hunting, fishing and, here and there, a little crude farming. To-day, North and South America support a population of about 200,000,000, although the resources of the twin continents are but partially developed.

Improved by Man.—Improved land is a gift of nature plus the work of man, sometimes the one predominating, sometimes the other. The forests which once covered the eastern part of the United States have been largely cleared away at a cost of much labor; but on the prairies the preparation of the land for crops has been comparatively easy. In many places swamps have been drained; in others, dry land has been improved by irrigation; almost everywhere there has been cultivating, fertilizing, fencing, building and otherwise improving and bettering the work of nature. As a result of all this, improved land, commonly called real estate, is a combination of labor and capital with land, often quite inseparable.

In so far, then, as land has been cleared, drained, irrigated, fertilized, fenced, built upon, or otherwise improved or developed, it is the result of work and saving, like any other

form of capital; in so far as it has natural advantages of fertility, situation, climate, and the like, it is a gift of nature.

Free Land in America.—Less than a hundred years ago, unimproved land was so plentiful in the United States that it could be had for next to nothing. Even so late as 1862, when the Homestead Act was passed, it was thought wise to encourage rapid settlement by gifts of public land to actual settlers. Also, vast tracts of land were given to railway corporations, at first by the western states, and later by the federal government. Timber lands, mining claims and water-power sites, too, were given away with a free hand, helping the pioneer to make a living on the frontier, though sooner or later falling into the hands of corporations able to exploit and develop them.

Rapid Settlement.—Perhaps the United States, Canada and other new countries have been lavish in thus giving away their lands; but certainly this policy has resulted in rapid settlement and exploitation of the various natural resources, and the production of vast quantities of wheat, corn, beef, pork, mutton, wool, cotton, leather, lumber, coal, petroleum, and other raw materials and food products, from which all countries, new and old, have derived great benefits. As owners of land and producers of raw materials, the pioneers and their children have prospered; but as producers of manufactured goods and as consumers, the people of the older countries have shared in their prosperity. In fact, the increasing population and prosperity of western Europe in the half century before the World War, was largely due to the rapid settlement of America and other food producing countries.

The Price of Land.—The price of land, like the price of other commodities, depends upon supply and demand. However, land differs from other commodities in that the quantity of it in a given country, or even in the world, cannot be increased by human labor, as it is limited by nature. In early

times there was so much unimproved land in America, that the price of it was very low. In 1803, when the Louisiana Territory of more than 1,000,000 square miles was bought for \$15,000,000—less than 2 cents an acre—some people thought we were paying too much for it. Even to-day, much fertile land can be obtained in remote parts of Canada at very low prices—the trouble is to get people to take it up.

Scarcity of the Better Lands.—But the better lands—more fertile, or better situated—have been relatively scarce for a long time and have commanded high and increasing prices, as population and wealth have increased. Naturally, people have occupied the most desirable lands first, whether because they were more fertile or more accessible; but gradually they have taken up less desirable lands, until, at the present time, practically all the lands are used which will yield the American farmer his customary standard of living.

Waste Land in America.—European travelers in America often marvel at our large areas of uncultivated land, not fully realizing that the American farmer cultivates only the cream of the land, even as he uses only the better grades of fruit and vegetables, burns up straw, and wastes many things which, in Europe, would be carefully saved. In fact, many New England farms have been abandoned which would yield European peasants a good living, and which, in many cases, are being taken up again, though mostly by French-Canadians, Italians and other immigrants.

Population, Poverty and Land Values.—As the population of the United States and Canada increases, farmers and cattlemen will doubtless take up poorer and poorer lands; but it will be a long time before hillsides are terraced and cultivated, as they are in some of the wine-growing districts of France, and still longer before our farmers will cut grass on rocky ledges and carry it on their backs, as they do in many

parts of Switzerland. When that day arrives, if it ever does, we shall be far poorer than we are to-day, for it is overpopulation and poverty that drives people to poorer and poorer lands, until they reach what the economists call the "margin of cultivation."

Demand for Land.—The demand for agricultural land comes from farmers and others, who wish to use it, or from speculators who wish to hold it for a rise in price. If there were no farmers, there would be no speculators, as the speculator expects to sell, sooner or later, to some farmer. Usually, though not always, the speculative value is higher than the investment value, because the speculator is betting on the future; whereas the farmer, as a farmer, tries to make interest on his investment, wages for his labor, and a fair profit as well.

Speculation.—Much of the speculation in farm lands is done by farmers, who often buy at a price determined, not by the present net product of the land, but by their expectation of future product, prices and profits. For this reason, farmers often find that, after deducting from their gross income a fair interest on the investment and all expenses, their own labor income is very low and their profits are nothing at all.

The Farmer's Labor Income.—A record of 195 farmers in Nebraska, prepared by Professor H. C. Filley in 1916 for the years immediately preceding the World War, gives the average value of real estate as \$23,816; livestock and other capital, as \$2,830; making a total capital investment of \$26,646. The average annual receipts from crops and animals were \$2,583, and the average expenses, including wages of hired labor, were \$866; leaving an average farm income of \$1,717. However, when we deduct from this amount interest at 5 per cent on the average capital invested, we have left only \$385 as the average farmer's "labor income."

Are the Farmers Prosperous?—One wonders how it can

be that farmers owning their own land will work for such a small return, when they could earn twice as much at some city trade and three times as much as tenant farmers on rented land. Of course, allowance must be made for rent, and for meat, vegetables, eggs, milk, and other farm products used by the farmer and his family; but when all of these items are counted, the author concludes that "the average farmer of eastern Nebraska receives between \$1,000 and \$1,200 per year for his labor and management "

Profits of Farming.—However, it should be noted that the average western farmer has taken his pay, not so much in annual money income, as in the increasing value of his land, so that his case is not quite so bad as appears from the bare figures of "labor income." Besides, the allowance of 5 per cent upon the capital value is too high, as people are willing to buy land upon the basis of 3 or $3\frac{1}{2}$ per cent return, because of the security of the investment and the chance of the land's increasing in value. If, in the figures above cited, we allow but 3 per cent on the value of the land, we can add \$476 to the average farmer's "labor income."

Inflation of Land Values.—Yet after making all such corrections, it looks as though the selling value of land in the western states had been too high, even before the war. It was to a considerable extent a speculative value, based on the expectation of future values, rather than on the net profits of farming at that time. During the war, because of the increase in prices, the selling value of land increased enormously; but, after the collapse in prices in 1920, the selling value also collapsed, and many farmers who had bought land at inflated values were ruined.

Relation of Land Values to Rent.—In buying farm land, the chief thing to consider is the annual use value of the land, which is the value of the product of the land, less all the

expenses of farming. This, apart from the income from improvements, is the theoretical or economic rent, and the value of the land is the capital value of the rent. That is to say, if the net rent is \$10 an acre, and likely to remain so indefinitely, and farmers expect 5 per cent on their investment, then the value of the land is \$200 an acre, because \$200 invested at 5 per cent yields \$10 a year. If the rate of interest were 4 per cent, the value of the land would be \$250; but if the rate were 10 per cent, the land would be worth, for farming, only \$100. Therefore, the value of land tends to rise as the rate of interest falls and to fall as the rate of interest rises.

No-Rent Land.—The value of land, of course, rises or falls with the rent. If land were so poor as to yield only a bare living to the farmer, it would yield no rent, and it would have no selling value for farm purposes. Of course, the buildings and other improvements might be worth something, though not what they originally cost. Many old farms in New England have been sold for much less than the cost of the improvements, the lands being thrown in for nothing.

High Land Values.—On the other hand, as rental values rise, the capital values of land also rise and may reach a high point. Some agricultural land in the United States is worth \$500 and even \$1,000 an acre, because it is highly fertile and close to the market. As a rule, land values are higher in Europe than in the United States, as they are near the center of the world market, and wages, interest and other expenses of farming are low.

New York Urban Site Values.—The most valuable land is, of course, in the business center of great cities, where the rents are the highest. Building sites in New York have sold as high as \$500 per square foot, or at the rate of \$20,000,000 an acre, because of their high rental value for business purposes. Rents are not high because land values are high; but

land values are high because rents are high; and rents are high because certain lands are scarce in comparison with the demand for them.

Demand and Supply of Urban Sites.—The demand for building sites near the corner of Broadway and Forty-second Street is due to the enormous number of people frequenting that part of New York City. It is the retail center of a great and wealthy city, where thousands of people demand service of shops, offices and places of amusement. The demand for service causes demand for buildings, demand for buildings causes demand for building sites; this causes the rent of building sites to be high; and the high rent makes land values high. As in the case of agricultural land, the value of the rent is the annual use value of the land alone, apart from all improvements. Also, the value of the land is the capital value of the annual rent.

Capitalization of Rent.—In estimating the value of land, people should consider not only present rent, but all future rents, and, as the future is unknown, there is always an element of speculation in the buying and selling of land. To be exact, the present value of land is the present worth of all the future rents, so the best that a buyer can do is to make a good guess, based on the experience of the past.

Land Values in Relation to Interest.—The present worth of a future income depends chiefly on the rate of interest; and, as there is expectation of still greater rents in the future, buyers of building sites in certain parts of great and growing cities are willing to capitalize present rents at a very low rate of interest—say, 3 or 4 per cent. If, therefore, a certain site in the business center of New York is worth a rental of \$100,000, and buyers are satisfied with 4 per cent interest, the selling value of that land is \$2,500,000.

Value of Land Before the War.—The value of land in

the United States has fluctuated a good deal, but its general trend has been upward. In 1850, the total wealth of the United States was estimated at \$7,000,000,000, in 1912 it was estimated at \$187,000,000,000, of which, possibly, a third may have been land values plus the improved values indistinguishable from them. Dr. W. I. King estimates the rent of all lands in the United States in 1910 at \$2,600,000,000, which, capitalized at 4 per cent, would give a capital value of \$65,000,000,000.

Fluctuation in Values.—Although the general movement of land values is upward, at different times and in different places it goes up or down, according to circumstances. Some years ago, irrigated fruit land near Grand Junction, Colorado, was selling from \$500 to \$2,000 an acre, based on the net profit of the growing of peaches in good years, and the optimism of salesmen and speculators. But when all the conditions of the business were understood—crop failures, price fluctuations, cost of spraying, smudging, marketing, and all that—land values went down to more reasonable figures, based on the net profits of mixed farming in a series of years.

During the World War, on the basis of \$2 wheat and \$1 corn, or better, land in Iowa and Illinois sold as high as \$400 to \$500 an acre; but now both crops and land seem to be reverting to pre-war prices, and farmers and speculators who bought land at inflated values are in a bad way.

The "Unearned Increment."—Some people think that the United States has made a great mistake in allowing its natural resources to be appropriated by private owners, and would have the various governmental bodies take them back as soon as possible, with or without compensation. They say that the increase or "increment" in the value of land is altogether due to the general increase in population and wealth rather than to the efforts of private owners, whose lands in-

crease in value "while they sleep " Therefore, in taking and keeping land and land values, which are social values, created by society at large, land owners, it is said, are enjoying what they have not earned, and the whole value of their land is an "unearned increment "

The Single Tax of Henry George.—The most popular plan for the socialization of land is the celebrated Single Tax of Henry George, who, in his *Progress and Poverty* (1879), argues that poverty is the direct result of private ownership of land, inasmuch as the land owners take the whole of the social surplus in the form of rent Private ownership of land, therefore, is a crime against society, as bad as slavery, and the property should be confiscated without compensation

Socialization of Land.—This can be done, gradually or speedily, according to Henry George, by laying all taxes on rents, until, all the rental values being taken, all the capital values will be gone, because the capitalized value of nothing is nothing The state, then, will be the owner of all lands. This plan, it is claimed, will have the additional advantage of encouraging improvement of land, and of business in general, by the removal of taxes

Early Communism Unsatisfactory.—In reply to these arguments and proposals, it may be said that private property in land is a very ancient institution, arising, probably, because people laid claim to land which they had occupied and improved, and because it was a better and more progressive system than communism. Common lands were slowly improved, if at all, because nobody had sufficient interest or inducement to spend labor and capital for which they would have no return. Thus, the old-time village community had passed away in western Europe before the settlement of America, although it continued to exist in Russia and other countries as a hindrance to economic progress.

Inducements to Pioneers.—And when it came to the settlement and development of new countries, it was found necessary, sooner or later, to offer the freehold to induce settlers to brave the hardships of pioneer life. The pioneers did much to build up the country and to increase the value of their land, so it cannot be said that land values are wholly unearned. The later comers did their part, but it was no hardship to them to have to pay an enhanced price for partially improved land. Even people who stayed in the eastern states and in Europe were greatly benefited by large supplies of cheap food and raw materials, and had no real grievance against the enterprising pioneers of the United States, Canada, Australia, New Zealand and other new countries.

Objections to Socialization of Land.—As to the proposal to confiscate the rent of land, and therefore its capital value, there are several serious objections to it.

In the first place, it would surely be unjust to do this without compensation; and Henry George himself admits that compensation is impracticable.

Secondly, private ownership in the past has greatly encouraged the improvement or utilization of natural resources, whether agricultural land, forests, mines, water power, or city lots. And as the resources of the earth are not yet fully developed, we shall probably need private ownership of land for a long time to come.

Thirdly, it would be difficult to separate pure ground rent from interest on improvements, especially in the case of agricultural land.

Fourthly, to socialize land would remove one of the foundation stones of the credit system and thus discourage saving and investment.

Fifthly, private property in land is so closely connected with

the rest of the present economic order that the removal of it would inflict a great shock to the whole system.

Sixthly, if it should seem desirable to prevent and remove, or at least to lessen the present unequal distribution of wealth, this could be done more easily by means of graduated income and inheritance taxes than by a single tax upon ground rent, which would introduce universal tenancy and might create evils greater than it could remove

Seventhly, the single-tax theory, if it proves anything, proves too much; for if it is unjust for an individual to own land within a state, it is even more unjust for countries like the United States and Canada to occupy and control the best parts of the world. If land should be socialized for the benefit of a nation, all national territories should be socialized for the benefit of the world. From this it would be only a step to international socialism

Experience of Russia and Ireland.—The attempt of the Soviet government in Russia to nationalize the land has not been successful, because of the passive resistance of the peasants, who desire to own the land. To make all the peasants of Russia state tenants would doubtless seriously delay the restoration of the country. On the other hand, the efforts of the British government to encourage Irish tenants to become freeholders have been most gratifying, and it is not likely that the Irish Free State will favor the socialization of land in either country or city.

Private Property a Trust.—For all that, it must be admitted that the justification of private property in land, as of all other private property, rests upon the basis of social advantage and justice; and if, at any future time, it shall be found bad for the people of any country, it will doubtless be abolished, and land will be socialized, notwithstanding all the disadvantages of public ownership. All property is being re-

garded more and more as something held in trust, and if the owners do not administer it for the general good, the people will say to them, in the words of the parable: "Give an account of thy stewardship, for thou mayest be no longer steward."

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QUESTIONS AND TOPICS

- 1 In what condition does nature offer land to man?
- 2 How can we separate or distinguish the improved value of land from its value as raw land?
- 3 What is the cost of improving raw land in your community?
- 4 What is real estate?
- 5 How can a person obtain a homestead?
- 6 Was the United States right in giving away the public land? Should it not have been leased?
- 7 What determines the price of land?
8. Why is there so much waste land in America?
9. Show the relation of increasing population to the price of land.

- 10 What are the effects of speculation in land? How can it be prevented?
- 11 What is the farmer's "labor income"? Why is it frequently very small?
- 12 What is the price of agricultural land in your community? Why so?
- 13 What is the relation between the rent and the capital value of land?
- 14 What is the relation between the value of land and the rate of interest?
- 15 If the rent of a piece of land is \$1,000 and the rate of interest is 4 per cent, what is the capital value of the land?
- 16 What is "no rent" land? Do you know of any such land?
- 17 Why is the value of land in New York City so high?
- 18 Explain the single-tax theory of Henry George. How would it work in your community?
- 19 What is the relation of the price of farm land to the prices of wheat and other farm products?

CHAPTER XV

CAPITAL AND INTEREST

When Man Had No Capital.—Although the lowest savages of the present day have weapons, tools and other means of production, it may be assumed that the earliest men had nothing of the sort, but lived, as best they could, from hand to mouth. They were probably confined to tropical or subtropical regions, as in a cold climate they must have quickly perished, being more helpless, except for their superior intelligence, than many of the lower animals

Beginnings of Capital.—But, just because of their superior intelligence, men began, little by little, to invent rude tools and weapons, and to accumulate supplies of food and other necessities. With their bare hands they could pick up a living; but with clubs and sharp sticks they could kill large animals; with flint knives and chisels they could make bows and arrows, traps and canoes. Thus they obtained a double advantage over their more primitive ancestors. first, in getting more and better things with less trouble; second, in accumulating a surplus on which they could live in time of scarcity or idleness, or while making tools or otherwise preparing for their work.

Making of Tools.—Here we have the beginnings of capital: wealth used as a means to the production of more wealth. Some of the lower animals build nests and store food, but none use implements with which to work or fight. The heron, the loon and the mink catch fish with beak or teeth; man fishes with hook or net. The wolf and the lynx stalk and seize their

prey, man uses a bow and arrow, or a trap. The beaver gnaws down a tree; man does the work with chisel or saw or ax, aided by fire. The lower animals fight with teeth and claws; man arms himself with club, spear, knife and tomahawk. The lower animals do things directly; man works by indirect, roundabout processes, far more productive in the long run.

Storing of Surplus Food.—It is hard to say which came first in the order of nature—the tool or the storing of surplus food—but certainly the one could not go far without the other. Tools and other instruments are necessary to increased production, and there must be some surplus product before men can give much time to the making of tools. Before an Indian or his wife could build a canoe or weave a net, they had to have a supply of food on which to live while they were doing the work. On the other hand, as soon as the canoe and net were made, they could catch far more fish than before, and lay up a larger stock of food on which to live while making more and better canoes, nets, bows and arrows, traps and other implements and appliances for use in hunting and fishing. If, however, they used their wealth unproductively, we should not call it capital; for capital is wealth used in the production of more wealth or wealth regarded as a source of income. All capital is wealth, but not all wealth is capital.

Two Kinds of Capital.—Even among savages and barbarians, therefore, there are two kinds of capital: first, food, clothing, shelter and the other necessities of life; second, tools, implements, weapons and other instruments or means used in the creation of more things. The former kind of capital we may call “consumers’ goods,” and the latter “producers’ goods.” Then the order of economic progress will be as follows: first, food, clothing, and other consumers’ goods are saved; second, the savage has time in which he makes canoes, and other producers’ goods; third, he uses these tools or im-

struments in getting more consumers' goods or more producers' goods or both.

Roundabout or Indirect Production.—This, in elementary form, is indirect or roundabout production; and, as man becomes more civilized, his ways of doing things become more indirect, roundabout and capitalistic, and saving plays a more important part in human economy.

Saving.—Saving, where the necessities of life are scarce, involves more or less of abstinence, waiting or self-denial; also prevention of waste, accumulation and storing of supplies for future use. In other words, when people save, they refrain from using things at present, in order that they may have more or better things in the future.

Work and Saving.—Of course, in the production and accumulation of wealth, the negative virtue of saving or waiting must be supplemented by the positive virtues of industry, forethought and ingenuity, else there will be no improved instruments and methods and no increased production. Saving is most important; but work is even more important. Leisure time is necessary to civilization, but must be used in the right way. Time itself has no creative power; it is only vacant, empty opportunity until filled with the creative activity of hand and brain.

Wages and Interest.—In early times there was no clear distinction between savers and workers, and little or no borrowing and lending as there is to-day; so there was no distinction between interest, the reward of saving or waiting, and wages, the reward of work. Yet hunters and fishers who saved and accumulated, made and used tools and weapons, got more game and fish than those who did not; and the additional take of game and fish was what we would call wages of labor, interest on capital, and profits of good management. Therefore, in a sort of undivided gain, wages existed before employment,

interest before lending, and profits before there were any business men.

Borrowing and Lending.—But in the course of time, as some people accumulated more than others, the practice of lending came into vogue, and interest appeared as a payment by the borrower to the lender for the use of wealth or capital. Perhaps a rich herder lent a flock of sheep to a poorer man on condition of receiving his stock or capital or principal back at the end of the season, with a share of the increase. Perhaps a rich farmer lent seed corn, a yoke of oxen, or a plow, with the understanding that he was to receive his property unimpaired, plus a share of the crop. Such payments, whether in goods or money, were formerly known as usury, or payment for the use of anything, a word now signifying excessive interest.

All Interest Once Called Usury.—The ancients had a strong prejudice against the taking of usury or interest, perhaps because most loans were for spending rather than for production, and people did not borrow unless they were poor or in trouble, and were subject to enslavement when they failed to pay their debts. Then, too, the ancient writers were aristocrats, despising commerce and everything connected with it, and did not understand the mutual advantage to borrowers and lenders from the productive use of capital.

Ancient Prejudice Against Interest.—Whatever the reason, the taking of interest was often forbidden by ancient law, though with some qualification. In the Law of Moses we read: "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury. Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury."

Is Money Barren?—The Greek philosophers also disapproved of interest. Aristotle condemned it on the ground that

money was barren; although this objection would not apply to the taking of increase of cattle, sheep, or crops, or the charging of rent for land, which amounted to the same thing. Money might be borrowed and exchanged for, say, 100 sheep, which might increase to 225 in a single season, after which the larger number might be sold for more money, out of which interest on the loan could easily be paid. Money, therefore, is not really barren as a medium of exchange, for it may be used to buy things which multiply under proper management. Evidently, Aristotle did not understand that interest is what is paid for the use of sheep, cattle, buildings, machinery and other goods, and not merely for the use of money, which is only one kind of capital.

Attitude of Schoolmen.—The churchmen of the Middle Ages, following Moses and Aristotle, forbade the taking of interest; although, as the towns and merchant class grew in numbers and importance, they invented excuses, permitting interest in special cases, until the exceptions practically did away with the rule. For example, a merchant might charge interest on a loan if he could show that he might have used the money profitably in his own business, or that he had suffered loss on account of it. Thus, Christians were gradually allowed to engage in the lending and banking business, previously monopolized by Jews.

Socialists Condemn Interest.—Nowadays, socialists condemn the taking of interest, as they condemn the whole institution of private property, and, doubtless, the two stand or fall together. If it is right to own property, it is right to charge for the use of it; and, on the other hand, if money or other property should be lent without interest, it should also be given away without price. In brief, interest, like wages, profits, prices and rent, is part and parcel of the economic system of the present day, based on the exchange of value for

value, and is likely to last until the present social order is replaced by something better—or worse.

The Rate of Interest.—The rate of interest, like the price of other things, depends on the supply and demand of loanable funds. The demand for loans comes from two kinds of people: spenders and investors. Spenders borrow because they cannot or will not wait until they can buy with their own money. They pay interest for the pleasure of spending now, rather than at some future time. Many a man will borrow money to buy an automobile, and even mortgage his home, because he and his family cannot wait until they have saved the amount required.

Discounting the Future.—Spenders overestimate the present and underestimate the future, and the rate of interest which they are willing to pay is the rate at which they discount the future. The present looks large to them and the future small, as though they were looking at the present through a microscope and at the future through the wrong end of a telescope. Lenders, on the contrary, take interest because they are far-sighted, prudent people, who prefer to wait until they have more to spend, or to re-invest, as the case may be. Evidently, then, to abolish interest, if it could be done, would be to encourage spending and discourage saving and investing—a most undesirable policy from the general or social point of view.

Productive Borrowers.—Borrowers of the second kind—business men or investors—expect to use the loans productively, so as to create or obtain more value than they have borrowed. How business men do this is something of a mystery to the uninitiated; but the fact remains that when they borrow money for the clearing of land, the buying of machinery, the feeding of cattle, for manufacturing, merchandising, or transporting, they usually increase their income and wealth,

so that they can repay the loan with interest, and retain a profit for themselves.

The fact that the wealth and income of the United States and most other countries increases from year to year, shows that business, on the whole, is profitable, notwithstanding the losses that come to borrowers and lenders when mistakes are made. Also, the fact that banks and investment companies seldom fail proves that borrowers usually pay their debts, whether out of income or from accumulated capital.

Partnership of Borrowers and Lenders.—In the case of productive loans, then, borrowers and lenders are in a sort of partnership, in which the lender receives what he wants—security and a fixed rate of interest—while the borrower, doing business on a larger and more profitable scale, gladly pays principal and interest at the end of his production period. And such partnership is good for the country at large, as tending to encourage saving, on the one hand, and business enterprise, on the other.

Supply of Loanable Capital.—The supply of loanable capital comes from the gifts of nature and the work of man. Savings or accumulation consists of improved land, cattle, buildings, furniture, machinery, finished goods, raw materials, money, or anything else that may be lent. Unimproved land is not usually regarded as capital, from the economist's point of view, although the business man does not usually distinguish between unimproved land, which is a gift of nature, and improvements, which are the work of man.

Capital Consists Chiefly of Things.—Apart from this distinction, it is well to remember that capital consists chiefly in goods rather than money. In the year 1920, the total wealth of the United States was estimated at \$290,000,000,000; but the stock of money in the country was only \$6,000,000,000, or about 2 per cent of the total wealth. Money is capital, but

it is only a small part of the capital or accumulated wealth of any country.

Capital Accumulated by Saving.—Wealth is accumulated by saving, that is, by spending less than one's income and by investing the surplus. If a farmer's net income is \$2,000, and he spends it all on food, clothing, shelter, furniture, and other consumers' goods, he saves nothing and accumulates nothing but his house, furniture and other more or less durable consumers' goods. But if he spends only \$1,500 in such ways, and invests \$500 in improving his land, or in live stock, machinery and other productive goods, he increases his capital and the capital of the community by \$500, which, if properly managed, will be a perpetual source of income to himself and the community at large.

Hoarding Is Unproductive.—Instead of investing his \$500 in productive property, the farmer might put it away in a safe-deposit vault and then keep it indefinitely; but that would be hoarding, rather than investing, and money thus laid aside would, literally, be barren. It is only when invested in productive goods that money is productive, and that saving results in the increase of personal and social wealth.

What Happens When We Save.—The city man's saving and investing is the same in principle. When a merchant's income exceeds his personal expenditure, he often invests it in his own business, and thus the business grows and serves the community more and more effectively. When a physician or lawyer saves something, he may lend it to a farmer, and thus help to create farm capital, or he may buy stocks and bonds and thus help to create capital in merchandising, manufacturing and transportation. Even when we deposit our money in the bank, it is for the most part invested productively, for it becomes the basis of loans to farmers, merchants and

manufacturers for the development of their various lines of business.

Capital Derived from Income.—In brief, capital is derived from income, but only from that part of income which is saved and invested. Nature and man working together create income, and frugal people see to it that there is a surplus of income over expenditure to be added to capital. Working and saving, therefore, are the two great sources of the accumulation of capital, for individuals and for the community at large.

Capital and Interest in Terms of Money.—Capital, therefore, is chiefly composed of goods other than money; and yet saving and investing, borrowing and lending, and all other business transactions are carried on in terms of money. Usually it is money that is lent, or credit, which is a promise to pay money and can readily be converted into money. And when other commodities are lent, they are measured or valued in terms of money, and interest is computed as a percentage of the capital value or principal.

Money Is Liquid Capital.—People prefer to lend money because it is always in demand, and they prefer to borrow money because they can buy with it anything which they desire. Borrowers usually wish to buy goods with the money, so it is really goods which they borrow; but first of all they borrow general purchasing power in the form of money or credit—free or floating, or fluid or liquid capital—which they may use as they please. Then they invest or sink the borrowed capital for a time, by buying goods; but when they come to pay their debts, they must liquidate again, for both interest and principal are payable in money. To liquidate is to sell goods for money; to invest is to exchange money for goods.

Supply of Loanable Capital Limited.—Obviously, only

a small part of the total wealth of the world is available for loans in the form of free or floating capital, so the supply is limited at a given time, and, as the demand is considerable, there is always a rate of interest above zero. But, as interest is mixed or alloyed with wages, profits and other shares in the product of industry, we must distinguish between gross interest, or the total rate paid for a loan, and net or pure interest—the bare charge for the loan of capital on perfect security.

Gross and Net Interest.—For example, a pawnbroker's charges, which seem high, are mostly composed of wages and the other expenses of his shop. The "interest" charged by money sharks is largely insurance against risk, expense of doing business, plus an unknown quantity of extortion and blackmail. Bank discount is more than pure interest, as the cost of the banking business must be met. The rate on first-class mortgages has a similar, though smaller element of expense in it; and the rate on first-class industrial bonds is still lower. Perhaps the best case of pure or net interest is the rate on government bonds, normally three per cent, or less—where there is practically no risk and the expense of floating the loan is very slight.

Interest a Stimulus to Saving.—Pure interest, then, is something like three per cent per annum, which seems to be enough to induce people to save and lend on the best security. In fact, some people would save to provide for a rainy day, even if they could get no interest at all; although in that case they would be more likely to hoard than to lend. Then, too, some very rich people save and invest because they cannot conveniently spend their income. And yet, a high rate of interest tends to encourage saving and a low rate to discourage it, especially in the case of business concerns, by which much of our saving is done, not for interest merely, but for the power

and profits that come from the enlargement and extension of business.

Mobility of Liquid Capital.—Various forces tend to raise or to lower the rate of interest, and, as liquid capital is very mobile, the rate tends to be the same in every part of the civilized world—due allowance being made for risk and expenses and other deductions from gross interest. The development of America, Australasia and other new countries has created demand for loans and tended to raise the rate of interest. New inventions and processes, such as the electric telegraph, the telephone, the wireless, the Bessemer process, the cyanide process, the linotype, and the rest, which create new industries or revolutionize the old, require new buildings, machinery and other increased expenditure for labor, and thus increase the demand for loanable capital and tend to increase the rate of interest.

On the other hand, saving and the accumulation of wealth increases the supply of loanable capital and tends to decrease the rate of interest. Spending has the opposite effect, and would greatly raise the rate of interest, were it not that, hitherto, the frugality of the provident has outrun the impatience of the improvident. All things considered, unless business finds new worlds to conquer, we may expect wealth to accumulate more and more and the rate of interest to decline.

Laws Against Usury.—Because of the ancient prejudice against the taking of interest, severe laws have been passed in many countries against usury or excessive interest, notably in Russia, where money lenders are despised and hated and often massacred. But laws against usury are easily evaded, and the massacre of Jews in Russia has tended to raise the rate of interest, by adding a large element of risk to the business of lending. So also in Turkey, where the persecution of Greeks and Armenians has greatly retarded the development of the

country. A more enlightened and civilized policy would have transformed the money sharks of both countries into responsible bankers, for the best remedy for high rates of interest is the accumulation of wealth, based on thrift and the security of private property.

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QUESTIONS AND TOPICS

1. What is capital? Distinguish between capital and wealth.
- 2 Explain the probable origin of capital
- 3 Interest existed before lending How could that be?
- 4 Make a list of capital goods in your community
- 5 Some wealth is not capital What is it?
- 6 Mention the two chief forms of capital, giving examples
- 7 Capitalistic production is indirect or roundabout How so?
- 8 Capital is created by saving Explain
- 9 Distinguish between interest and usury
10. Explain the ancient prejudice against the taking of interest.
- 11 Who were the Schoolmen?
- 12 Is it wrong to take interest on a loan?
- 13 What determines the rate of interest?
- 14 Distinguish between gross and net interest
15. Spenders discount the future Explain
16. Savers often discount the present. Explain.

17. There is a partnership between the borrower and the lender.
Explain
- 18 Distinguish between saving, investment and hoarding.
- 19 What is a miser?
- 20 Is spending good for the community?
21. Can we have too much spending?
- 22 Can we have too much saving?
- 23 Discuss the Parable of the Ten Talents Matthew xxv, 14-21.
- 24 What is fluid or liquid capital?
25. Should we have laws against usury? Why or why not?

CHAPTER XVI

BUSINESS ENTERPRISE AND PROFITS

The Threefold Partnership.—The primary factors in production are man and nature; but as soon as man creates and accumulates wealth to be used in further production, a third factor comes upon the scene, and we have the great threefold partnership of man, nature and capital, or, as they are commonly called, labor, land and capital

The Three Shares.—Corresponding to these three factors in production are three shares in the distribution of the joint product wages, rent and interest Free laborers receive their wages or salaries, landowners receive ground rent; and the owners of capital receive interest for the use of it, when compensation for risk and management are left out of account.

Divided and Undivided Portions.—This threefold partnership in contribution and remuneration can be seen in any business, although it is somewhat obscured when one person makes all three contributions to production and takes all three shares of income. A tenant farmer, for example, may pay rent for his land, interest on borrowed capital, and wages to hired labor; while his neighbor, a small proprietor, may be landowner, capitalist and laborer all in one. Nevertheless, the three factors in production and the corresponding shares in distribution are there, in both cases, though hard to distinguish, especially in the second case

A Fourth Partner.—But, in both of these cases, a further distinction should be made between the wage earner and the self-employed worker, the tenant farmer or the proprietor, who, after allowing wages, rent and interest to himself and

others, may have a surplus left which we call net profit. So we say that there are really four partners or factors in production: the employee, the landowner, the capitalist, and the business man or self-directing worker; and four shares in the joint product: wages, ground rent, interest and profits.

The Enterpriser and His Various Names.—It is hard to find a suitable name for this central figure in the business world. We cannot call him "employer," as in many cases he employs nobody but himself. We should like to call him "business man," but many salaried people lay claim to that title. The old name "adventurer" might be used, but that seems to imply the taking of excessive risk. He is often called "boss," but that seems lacking in dignity. "Promoter" will not do, as the business man does more than start things; nor "manager," as he is something more than that. The French word "*entrepreneur*" exactly fits the case, but that, being translated, means "undertaker," a word appropriated by a particular business. All things considered, the name "enterpriser" is probably the best that can be found, although it is newly coined and somewhat unfamiliar.

Classes of Enterprisers.—Enterprisers are of three main classes, according to the size of their business: first, small farmers, shopkeepers and other one-man or one-family proprietors, second, larger farmers, shopkeepers, manufacturers and other employers, who work with their employees, third, the chiefs of great railway companies, insurance companies, and other business corporations, who, like the generals of an army, give their time chiefly to strategy and major tactics, leaving much of the management and most of the details to their subordinates.

The Captains of Industry.—The enterpriser is needed in the business world, because neither labor, land nor capital produce anything alone and apart from the others, but must

be brought together in suitable proportions, at the proper time and place, if their united activities are to have the right result. So the enterpriser, in making the combination, constitutes himself the mobilizer, organizer, commander and paymaster of the industrial forces. He studies the situation, looks forward and backward, anticipates changes, discovers opportunities, forms plans, makes decisions, takes the initiative, and, in general, assumes responsibility and risk. He guarantees and pays wages and salaries to employees, ground rent to landowners, interest to capitalists; bears what losses there may be; and, if there is any profit, he takes it for himself.

The Small Proprietor.—The small farmer, shopkeeper, or manufacturer does all of these things, though on a small scale, and for slight remuneration. He may be, and often is, laborer, landowner and capitalist all in one, and his gross income, which he likes to call "profit," is really composed of four undivided parts: wages, ground rent, interest and true or pure or net profit. In fact, when such men begin to keep accounts, deducting from their gross income these items, with maintenance, depreciation, insurance, taxes and all other costs, they often find that they have earned no net profit whatever and that their own "labor income" is very small.

The Great Corporation.—In a railway company or other great business corporation, where specialization has gone far, it is somewhat easier to distinguish the four factors in production and the corresponding shares in distribution; yet even here the fourfold classification does not quite fit the facts. For example, it is hard to put one's finger on the real employer, business man or enterpriser and be sure that he and no other receives the profits of business enterprise.

Who Is the Enterpriser?—Of course, a railway company is owned by the stockholders, who elect the directors, who appoint the manager, who carries on the business. The salaried

manager is an employee, exercising delegated authority, although he may be, and usually is, a stockholder as well, and, as such, receives dividends or profits. Bondholders are creditors or mortgagees, receiving their stipulated five or six per cent interest, so they may be classed as capitalists. Preferred stockholders also are capitalists, receiving their seven or eight per cent guaranteed dividend before the common stockholders get anything, and may or may not have the right to vote.

The Majority Stockholders.—The voting stockholders are the real owners of the corporation, taking the major risk, the initiative, responsibility, and all the other functions of business enterprise; and, naturally, the net profits, if there are any, go chiefly to them. Yet, as is well known, the small stockholders have little influence in the company; and directors, even, may be “dummies,” representing a power behind the throne. In the last analysis, then, the majority stockholders, who control the policy of the company, are the chief enterprisers in the case, although, sharing the risk and responsibility with other stockholders and officials, they share the profits also with them.

Net Profits a Surplus.—Net profits, when disentangled from the other shares in the joint product of business activity, are a surplus over and above all costs, and may be earned or acquired in many ways. For example, a farmer may get profits, or, as we say, make money, by having a farm of the right size, by proper selection and rotation of crops, by having improved buildings, live stock and machinery, by feeding cattle or hogs, by draining a swamp, by irrigating dry land, by learning how to market his products, or by practising in other ways the principles of scientific farming. Then, too, farmers often make money by buying and selling or holding land, and this, in a growing community, is often their chief source of profit.

Various Sources of Profit.—Other business men have their own ways of making money. Cattlemen are likely to do well when they have a good location, a considerable herd, sufficient working capital, long experience and good luck. In the gold mining business prospectors may spend years in fruitless quest, allured by the hope of one day "striking it rich." The few who find promising claims are apt to sell out to promoters or capitalists for cash or on shares, or both. Promoters usually form a company, sell as much stock as possible and take as large a commission as they can get. The controlling stockholders do what they can to create a producing and profitable mine, but in most cases they fail. Too often they waste or steal the money of the minority stockholders. Coal mining is a less hazardous business, although even here there is no assurance of profit. Drilling for oil, again, is highly speculative, like a lottery in which there are many blanks and few prizes.

Profit and Loss.—Much money has been made and lost in lumbering. Large profits have been obtained through lavish grants of timber lands and water privileges, the wasteful cutting of early days, and the more scientific management of recent years. Yet lumber companies have had their losses by destructive fires, unsuccessful "drives" and other vicissitudes of the business. The milling and selling of lumber, like other forms of manufacturing and merchandising, have enriched some and impoverished others, although, no doubt, the average profits in these lines have usually been large—sufficient, at least, to keep the business going.

Variations in Profits.—Conditions vary so greatly in different lines of business, and business men themselves are so unequal in character, capacity, command of capital and experience, that there is, strictly speaking, no such thing as an average or normal profit, even as there is no average or

normal rent of land. In examining the statistics of farm profits, for example, we find the farmers' "labor income" running all the way from almost nothing to thousands of dollars—sometimes less than the wages of common labor, sometimes higher than the wages which the farmer could earn working for some one else.

So, also, in retail merchandising and other lines of business. Some grocers, doing business in a small way, earn less than wages; others, with sufficient capital under good management, have a large yearly surplus, after paying all expenses, including the proprietor's own salary.

Salary and Net Profit.—The fact that business men now usually allow themselves a specified salary before saying that they have made any profits, calls attention to a distinction which should be made between the employer's salary or wages of management and true or net profits. If a farmer, after counting interest on his investment, wages of hired labor and all other expenses, finds that he has left no more than he could have earned as manager of another farm, he has really earned only wages for himself and no net profit at all.

No-Profit Businesses.—As a matter of fact, most farmers, small shopkeepers and even small manufacturers make no profits, as their net business income is no more than they could earn working for salaries, and often much less. To be sure, they have the satisfaction of being their own master, although, considering their small returns and the great risk of failure, it is a satisfaction dearly bought.

Frequency of Failure.—Failures do not seem to be common among farmers, but it is often said that 90 per cent of business men fail at some time or other in their career. This is probably an exaggeration, but there can be no question that failures are all too numerous. In the year 1896, according to Bradstreet's, there were 17,298 failures out of 1,162,048 enter-

prises of which account was taken, and the record from 1891 to 1896 shows that the mortality rate was from one to one and a half per cent per year. In the year 1922, there were 22,400 failures out of 2,074,617 business concerns, giving a mortality rate for that year of only 1.2 per cent. In the year 1919, there were only 5,515 failures, giving a mortality rate of 0.29 per cent—the lowest recorded since Bradstreet's compilations were begun. These figures included only outright failures, in which there was loss to creditors, but not the closing of business without bankruptcy, which is quite common.

Risks of Business.—In any case, the risks of business are very great and, amid the complexities and constant change of the business world, few are able to achieve great success. Most business men earn less than wages; a considerable proportion make a good living; and the number of those who make a fortune is relatively small. Business is something like a lottery, in which there are many blanks, some lucky numbers and few great prizes.

The Favorites of Fortune.—However, business is unlike a lottery or other game of chance in that the chances are not even, but strongly in favor of men of character, capacity and capital. Bradstreet's statistics of failures for 1912 show that about 40 per cent of the failures were due to incompetence of one kind and another; 30 per cent to lack of capital; 10 per cent to fraud; and, at most, 20 per cent to conditions over which the business man could have had no control. Therefore, when a business man has all the qualities which make for success, the chances are strongly in his favor.

Our Prosperous Neighbors.—A list of the 'prosperous business men of any considerable town shows pretty well what sort of people make money, and, in general, how they make it. Among them we can usually note a number of wealthy merchants and manufacturers, some retired farmers and miners;

some bankers, brokers, insurance men and dealers in real estate; proprietors of hotels, restaurants, hospitals, schools, garages, laundries, dairies, newspapers, transportation and storage facilities, self-employing tailors, printers, bakers, plumbers, carpenters or other prosperous craftsmen; independent agents, contractors, and promoters; directors of railroads, electric light companies and other capitalists; and, finally, a number of well-to-do physicians, lawyers, dentists, engineers and other professional people.

Among these prominent citizens may be found some who enjoy monopoly profits of one kind and another; some who live by speculation, gambling, fraud, graft or common stealing; and a few, possibly, who lie and cheat upon occasion; but for the most part these people are engaged in useful work, are as respectable as they seem to be, and are prosperous because they have discovered new and better ways of doing business.

Origin of Great Fortunes.—In this connection it is worth while to consider the ways in which the best-known American millionaires have made their money. John Jacob Astor founded his fortune on the fur trade and established it by judicious investments in New York City real estate. Commodore Vanderbilt was a shipowner and railway builder and arranged many of the early railway consolidations. George Peabody was a successful dry goods merchant and banker. Jay Gould was a speculator and manipulator of railway securities. J. J. Hill, Lord Strathcona, Lord Mountstephen, and R. B. Angus were great railway builders in Canada and the United States, and made much money in lumber, mines and other enterprises. John Wanamaker was a dry goods merchant. Marshall Field, also a dry goods merchant, made profitable investments in Chicago land. J. P. Morgan was a great banker and creator of consolidations or "trusts."

The American Millionaires.—The Rockefellers grew up with the petroleum industry, profited by railway discriminations, created one of the greatest of the "trusts," and invested their surplus profits in railways, mines and other industries. Andrew Carnegie, under the wing of the tariff, was one of the makers of the iron and steel industry, and, indirectly, a founder of the United States Steel Corporation. Frederick Weyerhaeuser was a lumber king. Alexander Graham Bell was the inventor of the telephone, Cyrus H. McCormick of the reaping machine; George H. Pullman of the sleeping car. Du Pont is head of the gunpowder "trust", Havemeyer and Spreckles are chiefs of the sugar "trust", Armour, Swift, Cudahy, and Wilson are beef barons, Ryan, Payne, and Duke are tobacco magnates, the Guggenheims are copper kings, Ford is creator of the Ford automobile.

Great Industrial Leaders.—Such a list, which could be indefinitely extended, is sufficient to indicate that successful business men are not all saints, and that the business world is not so arranged and ordered that every man gets his exact deserts, no more, no less. And though it be true that these mighty men made America, it is equally true that America made them; for they grew up with the country in a time of rapid settlement, radical change, and extraordinary material progress, such as America is not likely to see again. And yet, this development took place under their leadership, and it is probable that the country would have been far poorer without them and the economic system of which they were a part.

The Social Significance of Profit.—True, they worked for profit, but in the maze and tangle of economic life, profit is the clew which shows where business enterprise is needed. A low price of land in certain regions, as in northwestern Canada, induces people to buy and settle and improve, and even non-resident speculators have their part in these activities. A

chance of profit in buying and selling grain shows that prices are too high in Liverpool and too low in North Dakota, or too low in summer and too high in winter. A chance of profit through the introduction of new machinery, new combinations of land, labor and capital, better organization, or large-scale production, indicates that the old machinery and methods are out of date and that goods can be produced at lower costs.

Stimulates Production.—An opportunity to profit by borrowing and lending shows that interest rates are too high in some places and too low in others. Opportunity for profit in draining or irrigating land or in the development of water-power, shows that progress has been lacking in these respects. High prices and profits in the production of wheat, beef, coal, iron and all other reproducible commodities, tend to stimulate production and to bring prices and profits down, as nothing else can do. Rising house rents, making the landlords' profits high, encourage building and tend to bring rents down to reasonable figures. On the other hand, the elimination of profits, whether by competition or governmental control or lessened demand, discourages production until profits rise again and business enterprise receives its due reward.

The Mainspring of Business Enterprise.—As a rule, then, profits point out something lacking or needed in the economic organization, and tend to supply that need, after which, through competition, they tend to disappear. There are, of course, some exceptions to this rule, as when profits are made through monopoly, by advertising and selling some inferior article, by promoting unsound or fraudulent schemes, or by sharp practice in other ways. For all that, the rule still holds that profits are a necessary inducement to business enterprise, without which business men would not assume the risk involved, nor take the trouble to carry on business in the right way. Profits, therefore, have an important function to per-

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form in the present economic order, and are likely to continue so long as business enterprise and material progress are thought worth while.

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QUESTIONS AND TOPICS

- 1 Mention the four factors in production and the four shares in distribution Explain them
- 2 Distinguish between profits and interest
- 3 If a grocer's "profits" are \$3,000, and he can get a position at that salary, is he earning any profit at all?
- 4 Which name do you prefer for the enterpriser? Why?
- 5 Is the salaried manager of a bank an enterpriser?
- 6 Point out the enterpriser in a small store, a large departmental store, a railway company
- 7 What is a business corporation?
- 8 What are common stockholders, preferred stockholders, and bondholders?
- 9 Who controls a corporation?

- 10 What are "proxies"?
- 11 Make a list of the various ways in which business men make profits
- 12 Is it true that 90 per cent of business men fail?
- 13 Are the risks of business very great?
14. Are successful business men exceptionally capable?
- 15 What are the chief causes of failure in business?
- 16 Is a successful business man useful to the community? Would the community be better without him?
- 17 Show the relation between rapid progress and the making of great fortunes
- 18 Will progress be as great in the next half century as in the past?
- 19 Will there be the same opportunity for accumulating great wealth?
- 20 Should business be carried on for service rather than for profit?

CHAPTER XVII

COMPETITION AND MONOPOLY

Rivalry.—Competition exists when two or more persons are rivals, seeking the same thing, whether in love, war, politics, society, work, play or any other field of human activity. Among savage groups, competing for the bare necessities of life, the struggle with wild beasts and wild men is nothing short of war, but, as man rises in the scale of civilization, the struggle is lifted to a higher plane. Civilized man struggles for the comforts rather than the necessities of life, and has learned to provide for himself by creating what he needs, rather than by taking things already made from nature or his fellows. However, under the stress of scarcity, poverty, danger, laziness, greed, ambition or other temptation, civilized competition may descend to fraud, violence and open war.

Two-Sided Competition.—In modern business there are two chief kinds of competition, which are really one. competition between people who have something to sell and competition between people who wish to buy. All makers of shoes who try to sell to the same shops are competitors. One American farmer competes with another in the selling of grain at home; and as he sells in England and other foreign countries, he competes with the farmers of Canada, Australia, Argentina, Russia, Egypt, India and all other grain exporting countries.

Broad View of Competition.—Moreover, the growers of corn, rye, potatoes and even bananas are competitors of the wheat grower, for these are food products which are used as substitutes for wheat, especially when the price of wheat is

too high. Similarly, wool competes with cotton, brick with wood, paper with leather, and so with other substitutes.

So also with buyers. All the consumers of milk in a given town compete with one another for the farmers' supply, and if there happens to be a scarcity of milk, the competition between the consumers will soon raise the price. The buyers of shoes in the same store compete with one another, and when there is a special sale, the competition may be quite keen. Competition between buyers is clearly seen at an auction, where, if there are many buyers bidding for the same thing, the price may be very high.

Rivalry Between Buyers.—And what is true of a single shop or a single town is true also of the country as a whole and of the world market. A miller in Minneapolis competes with a miller in New Orleans, as both may buy Dakota wheat on the Chicago Board of Trade. In so doing, they are representing or acting for the consumers of wheat bread, so we may say that the consumers all over the country are competing with one another for the quantity and quality of wheat which they need. So, also, the consumers of wheat bread in England are competing with those of America, and such competition tends to increase the price paid by the American consumer. Competition among buyers tends to raise prices; competition among sellers tends to lower them.

Everybody Buys and Sells.—Between the farmer and the "ultimate consumer," as we call the person who eats the wheaten bread, there is a long series of dealers who buy and sell: the elevator company, buying from the farmer and selling to the miller; the miller, buying wheat and selling flour; the baker, buying flour and selling bread. Then, too, there are the railway company, the telegraph company, the insurance company, with many manufacturers and merchants, contributing directly or indirectly to the production of wheat and other

foodstuffs and to the feeding of the consumers, not to mention sheltering and clothing them and supplying all their other wants. And the people who sell these goods and services are themselves consumers and buyers, for they are not in business for the public good alone. Therefore, selling and buying, supply and demand, are but two sides of the same shield, for almost everybody is a producer-consumer, a seller-buyer.

Business and War.—In this respect modern competition differs greatly from the warlike competition of savage groups or tribes, struggling for the limited gifts of nature. Two savage tribes might fight for a cave, a lake full of fish, or desirable hunting grounds, but that is war, not commerce or peaceful competition between buyers and sellers.

Economic Competition.—Economic competition, based on the exchange of goods and services, tends to increase the production of exchangeable things, and requires peace and security for its proper exercise. Constant warfare is destructive, prevents production, and confines commerce within very narrow limits. Savages have slight production and little or no commerce; pastoral peoples are more advanced in this respect, but it is not until people settle down upon the land, establish a strong government and a degree of security, that they can devote themselves to the arts of peace—agriculture, manufacture and commerce.

Commercial Wars.—True, there have been wars for commercial supremacy, as between Venice and Genoa in the Middle Ages; between Holland and England in the seventeenth century; and some say that the late war was at bottom a struggle for the markets of the world; but such wars have been due rather to political and national, than to business rivalry between individuals. Farmers, merchants and manufacturers, as such, desire peace; although as Germans, French or English, they may be willing to fight for their national supremacy. All

things considered, commerce and economic competition are creative and pacific, rather than grasping and warlike.

Rivalry in Production.—For example, farmers, under free competition, do their best to raise large and varied crops; manufacturers, under like conditions, produce all they can; with the result that city people have plenty of food and raw materials, and country people are well supplied with manufactured goods. Such two-sided, or many-sided competition stimulates production as nothing else could do. Although farmers, manufacturers, and all other producers may be working for their own advantage, they gain most, in the long run, by producing all they can, and thus supplying the general public—that is to say, themselves—with abundance of everything at the lowest cost.

Product and Prices.—Naturally, the individual farmer, as a business man, is primarily interested in having a large crop at a high price, although, as a consumer of manufactured goods, he desires a large output at a low price. On the other hand, the manufacturer likes to see high prices of what he makes and low prices of what he consumes. On both sides, therefore, the question of price, as related to production and to the cost of living, is of great interest and importance.

Competitive Price.—The market price of any particular commodity, such as wheat, is the point at which supply and demand are equal, or balance each other, and is determined, under free competition, by the voluntary offers of sellers and buyers. If the price is unusually high, farmers will plant more corn and potatoes, until supply and demand come to a balance again. If, on the contrary, the price is low, the farmers will plant less wheat and people will use more of it, until the balance is restored.

The Balance of the Market.—The balance is easily disturbed, and prices change from day to day in response to con-

tinual changes in supply and demand; and yet, in the long run, there is a sort of normal balance between farm products and manufactured goods, so that a given quantity and quality of the one usually buys much the same quantity and quality of the other. However, after the crisis of 1920, prices of agricultural commodities fell more than prices of manufactured goods, so that the purchasing power of a bushel of wheat or corn or potatoes was less than it had been before the war. This was largely because of the falling off of the European demand for our farm products, due to slow recovery after the disastrous war, though it was partly due to relative overproduction of farm products and the high costs of manufacture, especially the high wages of city workers. The farmers, therefore, have been saying, and with some reason, that prices were unfair, because the pre-war balance has not been restored.

Free Competition.—Under free competition, producers and consumers enter or leave the market as they please, without restraint or compulsion of any kind. Under such conditions, the price of wheat is usually thought to be "fair," because free competition prevails among manufacturers and all other business men. Then, if the farmer is dissatisfied, he may raise corn or potatoes or beets, rather than wheat, or if farming is unprofitable, he may transfer his labor and capital to some other line of business. So, also, the manufacturer or merchant, having the same freedom, has no reason to complain of high prices of farm products.

Cost of Production.—Competitive prices of wheat, corn, potatoes, lumber, clothes, pianos, automobiles and other reproducible goods are usually thought to be "fair" and "reasonable," because they are fixed by cost of production, and because buyers are protected against extortion by the free offers of many sellers, and sellers are likewise protected by the offers of many buyers, and there is no compulsion on either side. Pre-

sumably, under such conditions, farmers and manufacturers are selling at the lowest possible cost, while buyers are paying the most that the commodities are worth to them. Land, of course, is not reproducible, as it is limited in quantity and its price is not fixed by cost of production, but even in this case, people are free to buy or to sell as they please. If competition were universal, competitive rates of interest would be considered fair; so also competitive wages, salaries, fees, profits, house-rents and even prices of land. At least, it is hard to say what fair prices are if they are not those fixed in open market by free contract and unrestricted competition.

Unfair Competition.—And yet, competition must not be glorified as a cure for all economic ills, as it may be and often is unfair, especially when it descends to fraud. People may cheat in any game, and there is special temptation in the game of business, which is played for high stakes.

The selling of stocks in questionable enterprises, such as some mines, oil wells and land companies, which are not as represented, is a notorious example of this. Then, too, there are cheap imitations, adulterated goods, vicious literature, and many other inferior articles palmed off on foolish buyers by misleading advertisements and unscrupulous salesmen. The buyers are often themselves to blame for their ignorance, credulity and bad judgment. As the lawyers say, the buyers should beware; but that does not justify the sellers for taking advantage of them. Where there are sheep there will be wolves; but that does not excuse the wolves. And yet, if consumers could be taught how to buy, selling would soon be lifted to a higher plane.

Higgling of the Market.—The old-fashioned higgling or haggling of the market lent itself to many abuses, as buyers and sellers struggled for advantage; but that was due rather to lack of competition, which tends to reduce the margin of

higgling or bargaining. A merchant would offer a carpet, for example, at a very high price; the customer would offer a very low price; and between them they would waste time higgling backward and forward until they finally agreed upon a price which might or might not be truly competitive, but rather determined by the superior shrewdness of one side or the other.

This kind of bargaining still prevails in oriental bazaars and is more common in Europe than in America, where the one-price system is the rule. But even here it is common in the buying and selling of real estate, or in other transactions involving considerable sums of money. It is a contest between buyer and seller; but it is not broad, open competition, in which a market price is determined between a number of rival sellers, on the one hand, and rival buyers, on the other.

Cut-Throat Competition.—When, however, the rivalry becomes too intense, it is apt to descend to the lower plane of cut-throat competition, a sort of warfare in which some of the competitors violate the rules of the game in one way or another. Among the “unfair methods of competition” the following are often mentioned. discrimination in railway rates, local price cutting, one-commodity price cutting, use of trading stamps, secret commissions, exclusive arrangements, fixing resale prices, bogus independent concerns, espionage, misrepresentation, intimidation.

“Unfair” Practices.—Discrimination in railway rates was formerly very common, and was one of the means by which the Standard Oil Company and other “trusts” were able to extend their business. Low freight rates to large shippers may be legitimate up to a certain point; but it was, unquestionably, carried too far. Local price cutting is cutting prices below cost in order to ruin a competitor. Trading stamps are not really unfair, except in so far as they make the customer think he is getting something for nothing. Secret commissions are

closely related to bribery. Exclusive arrangements and the fixing of retail prices by the manufacturer may be fair or unfair, according to circumstances. A bogus independent concern is a small shop which is really an agency for a great company.

"Fair" Competition.—Obviously, some of these practices are justifiable under certain circumstances; others are designed to break down competition and establish a degree of monopoly; and still others are merely stupid violations of the code of business honor which injure the perpetrators more than any one else. Fair competition, like all virtue, is a mean between two extremes: on the one hand, the extreme of cut-throat competition; on the other, the extreme of monopolistic control. As in all other fields of human life, it is hard to keep in the straight and narrow way.

Relation of Competition to Monopoly.—Yet it is most important that business men observe high ideals of business honor for their own interests and for the general good; and it is equally important that good laws against unfair practices be passed and enforced. Unfair competition is bad in itself, and it is often the first step toward monopoly. Thus, cut-throat competition between manufacturers of petroleum, sugar and tobacco has ruined small producers and has led to the formation of trusts, and railway rate wars have led to the consolidation of rival roads. It should be remembered, however, that severe competition is not necessarily unfair, and that the elimination of inefficient competitors may be good for all concerned.

Wastes of Competition.—Much has been said of the wastes of competition—excessive advertising, multiplication of salesmen and other middlemen, undue expense of buildings, furniture and fixtures—but that is, in fact, the price we pay for protection against monopoly. Certainly, the farmers of

this country desire competition among manufacturers and merchants; and these, on the other hand, desire that the farmers continue to compete with one another. Neither individuals nor classes of business men have reason to complain when competition is fair and universal.

Benefits of Competition.—Competition tends to supply the consumer with a good article at a reasonable price, as business naturally goes to those who can produce at the lowest cost. This is well seen in the manufacture of automobiles, where there are large producers, but no monopoly. Monopoly tends to raise prices to some extent, as the monopolist tries to fix prices so as to give him the greatest profit. When oppressed by monopoly, people usually look to the government for help; but governmental price fixing tends to be controlled by politics and to discourage business. With all its defects and delinquencies, competition is the best protection for both producers and consumers; and competitive prices are more likely to be fair than monopoly prices or any known system of governmental control.

Is Competition Dead?—Perfectly free competition in every business has never existed, and probably never will. Custom and control have always been potent factors in economic life, although there has always been a strong undercurrent of competition, which is probably stronger to-day than ever before, notwithstanding the apparent tendency toward monopolistic control. A bird's-eye view of the business world shows that such is the case.

Competition in Agriculture.—The primary industries—agriculture, cattle-raising, mining, lumbering, fishing—are for the most part highly competitive. It has often been proposed that the farmers of the United States combine to reduce the production of wheat, corn, cotton and other crops; but they have never been able to do it, and might not if they could. In

fact, there is international competition between both farmers and cattlemen in the world market, the control of which is out of the question.

Coöperative Selling.—True, the fruit growers of California have their marketing associations; the Brazilian government has tried to steady the price of coffee by storing large quantities for a time; and Australia, in a similar way, has gradually worked off the war-time accumulation of wool; but none of the cooperative selling agencies have much control over the price of a single commodity; and as for controlling the world market for fruit, coffee, or wool, that is quite beyond their power, as they can control neither the supply nor the demand of those commodities.

Competition and Combination in Mining.—Pennsylvania anthracite coal, being produced in a small area, is mostly owned by a few great corporations, which seem to have a certain monopolistic control over prices, yet even here there are independent companies, and there is little, if any, restriction of the output for the sake of price control. It might be well if the output were restricted and the price raised, for the sake of conserving the supply of anthracite coal for future generations; but nothing of the sort is done. The mining and selling of bituminous and lignite coal is very competitive, and, in fact, lacking in reasonable organization. So, also, the mining of gold, silver, copper and other minerals goes on without unified control, and the prices are fixed by supply and demand in the world market. Lumbering is quite competitive, and even saw-milling, as some lumber kings have learned to their cost. As to fishing, it might be well for the inland and coastal fisheries if there were some limitation of the catch and some control of prices in the interest of conservation. Deep-sea fishing is very competitive, although there are large fishing

companies with which the small fishing vessels find it hard to compete.

Merchandising.—Merchandising, both wholesale and retail, is highly competitive. Every merchant likes to do all the business he can, and to turn his capital as many times in a year as possible. A single merchant in a small town may seem to have a partial monopoly, but he is usually in competition with the merchants of neighboring towns as well as the dreaded mail-order houses, and he is likely to have a rival store in his own town if his prices and profits are too high. In the larger towns and great cities there is still keener competition in the selling of goods and services, including fire and life insurance, the hotel and restaurant businesses, cab and delivery service, and other important lines of business not usually considered in this connection.

Public Service Monopolies.—The so-called “public service utilities”—water, tramways, gas, electric light—are more or less monopolistic, as it is neither economical nor convenient to have duplication of extensive plants. So these “municipal monopolies,” when owned by private companies, are under public control, and the municipality is the real monopolist. A large proportion of the railways of the United States are consolidated into a few large systems; but as the rates are fixed by the Interstate Commerce Commission and various state boards, the public authorities, again, are the real monopolists in the case. The transmission of intelligence by wire and wireless is even more consolidated than the railways; but the telegraph, telephone and wireless companies, also, are under public supervision.

Competition in Manufacturing.—As to manufacturing, competition still rules throughout most of the field, although it is here that the great “trusts” are found, some of which exercised a partial and limited control over prices, though far

less than is commonly supposed. In many lines of manufacturing—automobiles, cotton, wool, clothing, publishing and what not—there is no dominant trust, and numerous concerns, large and small, are in active competition. Jenks and Clark in *The Trust Problem* (1917), say: "In estimating the extent of both the economic and social effects of industrial combinations it is essential to note that their activity is limited now to only a part of the industrial field, not more than 25 per cent at the most, and there seems no likelihood that they will in this era, if ever, cover it entirely."

Competition Among Wage Earners.—Finally, in the labor market, competition is still the rule, as four-fifths of the employees of the United States are unorganized and their wages are fixed by supply and demand, rather than by any monopolistic control. Yet most of the skilled trades are strongly unionized and the unions have considerable control over wages. The total membership of labor unions in this country is probably not over 5,500,000, which is less than 20 per cent of all employees. In Great Britain the unions claim over 8,000,000 members, or more than 50 per cent of all employees in the United Kingdom.

Monopoly Power of Unions.—No doubt many unions have been able to raise their wages above the competitive level by making themselves an exclusive aristocracy of labor. Thus, the railway brotherhoods of locomotive engineers, firemen, conductors and trainmen have pushed their wages up at the expense of the section men and other unskilled laborers. However, in recent years, the wages of section men have increased more than those of the brotherhoods. If all the railway workers were organized, the power of the brotherhoods to control wages would probably be less, unless they could persuade the Interstate Commerce Commission to raise freight and passenger rates. Also, if all labor were unionized, their control

over wages would probably be less than that which the skilled trades now exercise, unless they could do something to increase the productivity of labor and thus increase the demand for labor.

Competition Still the Rule.—So we may say that competition still prevails in the business world, and that, even where there is some control over prices, it is limited and checked by strong undercurrents of supply and demand. Competition is always in the background, ready to come forth and play an active part whenever there is a chance of profit. This is what we call "potential," as distinguished from actual competition, because it is the potentiality or possibility of competition, which the monopolist must ever keep in mind when he is tempted to take an exorbitant profit. In fact, our great trusts realize that their power of price control is greater when it is not exercised, that is, when they keep their prices close to cost. As Professor Taussig well says. "Over the greater part of the economic field competition is still in force, though often irregular and spasmodical, and the tendency is still for the prices of things to conform to their cost."

Exceptions to the Rule.—Competition, then, is the rule in the modern business world, albeit a rule to which there are many exceptions. It requires such constant effort, anxiety and eternal vigilance, that business men are only too glad when they can find relief from the struggle, whether by a "gentlemen's agreement," as an informal understanding with competitors is often called, or by some more definite form of combination or consolidation.

Large-Scale Production.—One of the chief results of competition among manufacturers has been the elimination of the small and the weak, and the concentration of business in relatively few concerns. In the boot and shoe industry, for example, there were in 1880 about 5,000 establishments with

a combined capital of \$42,000,000; but in 1914 there were only 1,355 establishments with a capital of \$254,000,000. Similar concentration has taken place in most other manufacturing industries, because of the greater efficiency of production on a large scale

Elimination of the Weak.—The little man is cut out because he cannot manufacture as cheaply as his big competitor, nor sell his product at as low a price. Or if, as sometimes happens, the little man can reduce his costs and his prices, the big concerns sometimes ruin him by "local price cutting," "one commodity cutting," and other unfair methods of competition. Yet, strange to say, there are still many small concerns which manage to survive, because of local conditions, good management or the economies of small-scale production

Step Toward Monopoly.—Large-scale production, in and of itself, gives no monopoly or price control; but it may facilitate it by cutting down costs, intensifying competition and reducing the number of competitors. The economies of large-scale production have been so great that they have suggested the possibility of effecting further economies by eliminating the wastes of competition. Then, there is always the lure of monopoly profits, which have often been reckoned on paper; though they are not always realized, as in the old story of "counting chickens before they are hatched."

Rise of the "Trusts."—There was, toward the end of the last century, a veritable epidemic of consolidation, when the so-called "trusts" were formed, in oil, steel, sugar, whisky, tobacco, matches, wall paper, leather, farm machinery, shoe manufacturing and other staple commodities. So rapid was this movement that it looked for a time as though great trusts would dominate every important industry and obtain a stranglehold on the industrial life of the country.

The Standard Oil Company.—The first notable "trust"

was the Standard Oil Company which, in 1880, became trustee for a number of previously independent oil refining companies, holding their stock in trust and putting them all under unified management and control. The united companies refined a large proportion of all the oil of the United States, and they must have exercised considerable control over prices, as their enormous profits indicate. Still, their profits were derived from large-scale production in a new and rapidly growing business, rather than from any restriction of output such as we usually associate with monopoly control.

Obstacles to Consolidation.—The enormous profits of the Standard Oil Company induced many other manufacturing concerns to follow its example by uniting or consolidating under one form of organization or another. The movement would probably have gone farther than it did, but for the protests of independent companies and of the general public, resulting in the Sherman Anti-Trust Act of 1890 and various state laws designed to prevent "restriction of trade."

The Twilight of the Trusts.—Then, too, it was found by experience, that the control of prices was limited, that profits were not so great as had been expected, that there were certain disadvantages in large-scale production, that there was actual and potential competition from independent companies, and that there was danger of still more anti-trust legislation and even public control, in case the trusts abused their power.

Thus, for one reason or another, the trust movement has not developed as it was hoped and feared. The Standard Oil Company was dissolved in 1911 under the Sherman Anti-Trust Act, and the thirty-three subsidiary companies into which it was broken up probably refine a much smaller fraction of the American output than the old "trust" did in the heyday of its power.

Percentage of National Output.—The United States Steel

Corporation, organized in 1901, produced 66 per cent of the steel ingots manufactured in the United States; but in 1910 its quota was only 54 per cent. The American Sugar Refining Company, at its organization in 1891, controlled 75 per cent of the American output, in 1892 it had 98 per cent; but in trying to control prices it brought on competition, so that its fraction of the total output declined to 60 per cent in 1910, and the Company claimed that it was only 27 per cent in 1919. The International Harvester Company manufactured about 90 per cent of the grain binders and 82 per cent of the mowers in 1902; in 1919 they manufactured about 65 per cent of the binders and 60 per cent of the mowers

The Gentlemen's Agreement.—The great trusts seem to be less important, relatively, than they were twenty years ago, and the difficulties in the way of any considerable degree of price control are, if anything, greater than they were then. It should be remembered, however, that many of the so-called "independent" concerns work in harmony with the trusts, by a sort of tacit agreement not to indulge in price-cutting. Such an understanding is often called a "gentlemen's agreement," because it depends upon the honor of the parties concerned, rather than on any formal contract with penalties for non-observance.

Combinations and Consolidations.—"Trusts" are of two kinds: combinations and consolidations. The beef trust is said to be a loose combination between four great packers—Armour, Swift, Wilson and Cudahy—although they strongly deny that they have any agreement whatever to control the buying and selling prices of beef. Certainly, their margin of profit on each animal seems to be much smaller and the quality of the product better than in former times. They are accused of arbitrarily putting prices up and down, so as to discourage the raising of cattle; although they say they do all they can

to encourage that business, which is the basis of their own prosperity. Even if they had a real consolidation, their monopoly power would be comparatively slight, as their products would be in competition with bread, fruit, fish and all other substitutes, which they could not possibly control, and there would still be the insuperable difficulty of controlling the world market.

Unstable Agreements.—The great trouble with the combination, or gentlemen's agreement, or "Kartell," as the Germans call it, is that the temptation to violate the agreement becomes stronger as prices and profits rise, so that presently the combination breaks down and competition is resumed. However, in these days of cost accounting and scientific management, when business men know what they are doing, there is less disastrous competition than formerly, but rather a sort of tacit agreement to live and let live on the basis of "reasonable" prices and profits.

In Germany, pools, selling agreements and other forms of the "Kartell" are under governmental supervision and are enforceable by law, which has tended to prevent the formation of consolidations. However, since the war, the American "trust," as promoted by Hugo Stinnes and other financiers, has been gaining ground.

Present Prospects.—In America, at least, the combination, agreement, or Kartell, is so unstable that it tends to move backward toward free competition or forward toward consolidation, although the latter trend has not been so strong in recent years. At present it looks as though no single brain could properly manage one of these gigantic corporations, and as though no system, however efficient, could take the place of the guiding spirit of human personality. Therefore, the present tendency seems to be toward large-scale production,

but not too large, and competition mitigated by knowledge of safe and sane ways of doing business.

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QUESTIONS AND TOPICS

- 1 What is competition?
- 2 Distinguish between economic competition and war
3. The American farmer competes with the Argentinian farmer
Could they possibly combine to control output and prices?
- 4 Who is the "ultimate consumer"?
- 5 Give examples of commercial wars between nations
- 6 Does international competition tend toward war?
- 7 What is market price?
8. How has the World War affected the American farmer?
- 9 Do the merchants in your community compete with one another?
- 10 Does your town compete with other towns?
- 11 What are fair and unfair competition?
- 12 What is the one-price system in merchandising? Is it always observed?
13. How may competition lead to monopoly?

- 14 Mention the chief wastes of competition Can they be avoided?
- 15 Is competition passing away?
- 16 Is it right for manufacturers, merchants and farmers to combine for the control of output and prices?
- 17 What is a trust? Mention the chief trusts
- 18 What is a holding company?
- 19 Are prices high because of monopoly or for some other reason?
- 20 What is monopoly?
- 21 Monopoly is of two kinds—seller's monopoly and buyer's monopoly Explain
- 22 Distinguish between large-scale production and monopoly.
- 23 Read the history of the Standard Oil Company
- 24 Is the power of trusts increasing?
- 25 How does cost accounting affect prices?

CHAPTER XVIII

THE UPS AND DOWNS OF BUSINESS

The Changes of Nature.—As man gets his living from the earth, he is subject to all the changes of nature, regular and irregular, and must keep up a continual struggle to adapt himself to them. Among these phenomena are the alternations of night and day, the phases of the moon, the tides, the seasons, the weather, multiplication of plants and animals, earthquakes, floods, fires, epidemics of disease, and all the vicissitudes of life and death.

Struggle Against Natural Forces.—Savages, with their limited knowledge, have slight control over natural forces, and often fear them as evil powers, bent on their destruction. When all goes well, they manage to eke out a tolerable existence, though often suffering from heat, cold, hunger, accident, disease and the attacks of animals; but when the major calamities come, such as famine and pestilence, they die like flies, unless they can quickly migrate to some more favored region.

Thus, the history of material civilization appears as a prolonged and determined effort on the part of man to escape from the brutal struggle for existence into a higher plane of life. The invention and improvement of tools and weapons, the domestication and improvement of plants and animals, the cultivation of the soil, the diversification and rotation of crops, irrigation, transportation, commerce, manufacture, the accumulation of property, the increase of knowledge—all these ways and means of economic progress have made it possible for

great and growing populations to live in increasing comfort and security.

Man's Control Over Nature.—Such improvements, in both ancient and modern times, have increased production, facilitated commerce, encouraged saving, and made it possible for every civilized country to enjoy the products of every other country at all times and seasons, thus greatly mitigating the evils of famine and pestilence. But the Industrial Revolution, with its applied science, machinery and new methods of production, did more than anything else to emancipate man from the regular and irregular periods of nature, and enabled him to secure a large and continuous supply of the necessities, comforts and luxuries of life.

Regularity of Industrial Processes.—Perhaps Great Britain is the best illustration of the regularity of modern industrial processes; for there is an island, with an area of 89,000 square miles, and a population, in 1921, of 43,000,000, of whom barely 10 per cent are engaged in agriculture and fishing, which yet receives from every part of the world a steady stream of goods of every kind, day and night, summer and winter, year in, year out, so that famine is no longer thought of, and the occasional scarcity of a few commodities is of slight importance. Only a terrible calamity, like the World War, can keep supplies from coming to this great center of industry and commerce.

Continuous Provision for Human Needs.—A similar miracle of modern industry is the daily feeding, clothing and sheltering of some 8,000,000 people in and about New York. Practically no foodstuffs or raw materials are raised in that great urban center, and it does not begin to supply its inhabitants with manufactured goods; and yet these millions are continually provided with goods of every kind from the ends of the earth. Frosts in North Dakota, drought in Kansas,

wool shortage in Australia, earthquakes in Chile, floods in China, famine in India—these and other local calamities do not cause serious privation to the people of New York. They deal with the world, and there is always some source from which they can get the things they need.

In brief, the present industrial order, with all its defects, is a sort of automatic machine that creates and accumulates and distributes continuously, as the hand of nature never did, even in the tropics. The machine works; it goes on, and the myriads of people whom it serves are provided for with marvelous regularity.

Seasonal Changes.—Yet, with all his forethought, man cannot altogether escape from the alternations of nature. The daily round has its time of waking and sleeping, work and rest. The cycle of the seasons brings its periods of business activity in spring and autumn, with shorter periods of comparative inactivity in midsummer and midwinter. Then there are the irregular alternations of good and bad harvests, which have much to do with good and bad times in business, especially in particular regions.

Mitigation of Famines.—During the Middle Ages, in France and other European countries, when roads were poor, transportation difficult and commerce slight, a crop failure in a certain province usually involved the death of many people from famine and disease, even when other provinces had more food than they could sell. But now, in western Europe, where transportation and commerce are well developed, industry is diversified, and there are large accumulations of wealth, the effects of crop failures are far less disastrous, as the people usually have something to sell in exchange for food and, if not, relief can be quickly obtained from other regions.

But the old-time famine still exists in countries like Russia, China and India, partly because they are industrially back-

ward, partly because they have not been able to adapt themselves to the new conditions. But such famines have but slight effect on international business, as they usually occur at different times, and nothing like a world famine has been known within the memory of man.

Sun-Spots and Business Disturbances.—Yet some writers try to trace the ups and downs of business to the harvests; the harvests to the weather; and the weather, finally, to astronomical changes. The great English economist, Stanley Jevons, long ago propounded an ingenious theory according to which business crises were due to a series of bad harvests, the harvests to a series of cold seasons caused by a shortage of heat from the sun, and this shortage of heat to sun-spots. A somewhat similar theory is that of the distinguished American geographer, Ellsworth Huntington, who says that economic cycles of prosperity and adversity depend upon health far more than any other factor, and that health depends largely upon the weather.

A Typical Business Cycle.—Whatever the cause or causes, it is certain that business has its periods of ebb and flow, some local, some national and others world-wide. They begin, let us say, with a time of business depression, as in this country from 1893 to 1897, which was a time of low prices, wages, interest, rents and profits, which many business men still remember as the period of "hard times" following the panic of 1893. Then came a time of prosperity or "boom," in which prices and profits rose, business men were making money and everybody was encouraged; until the crisis or panic of 1907, when prices fell again, banks suspended payment, many business houses failed, workers were unemployed, and there was discouragement and depression, lasting for several years, though not so serious as that of the middle nineties. After a time, when the effects of the panic had largely passed away,

confidence was gradually restored and a new business cycle was begun.

History Repeating Itself.—This was a typical business cycle, which ran its course, not only in the United States, but in most parts of the western world, although the dates were not quite the same in every country. Such a cycle is a curious example of the way in which economic history repeats itself, passing from crisis to crisis, or from depression to depression, in a strange succession of stages, though with minor variations, which serve to accentuate, rather than to obscure, the general course of events.

Local Cycles.—History gives many examples of local or national business cycles, although the world cycle was not possible before the Industrial Revolution had created a world market, by linking all the commercial countries together in a sensitive network of exchange, so that a serious disturbance in one country was felt, more or less, all over the world. But the early local cycles show in a small way the characteristic behavior of business men in times of prosperity, collapse and depression.

The Tulip Mania.—A case in point is the notorious tulip mania in Holland, which collapsed in 1636. The mania ran a course much like that of certain land and mining "booms" in America, beginning in a small way and gradually gaining momentum until prices rose to a fabulous height—as much as 5,000 florins being paid for a single bulb. Everyone imagined that the passion for tulips would last forever; and when confidence in the tulip's future failed and the bubble broke, thousands of speculators were ruined, although some few who had sold out at the right time had made enormous profits.

The Mississippi Bubble.—Another extraordinary craze was the "Mississippi Bubble" of France, connected with the Louisiana Company, launched in Paris in 1717 by John Law,

a Scotchman, founder of the Bank of France. The Company got a royal monopoly of all French territory drained by the Mississippi, Ohio and Missouri Rivers, and presently obtained control of all the colonial trade of France, took charge of the mint, undertook to pay the national debt and, in cooperation with the Bank, issued a great quantity of paper money. A tremendous speculation in the Company's shares ensued, only to collapse disastrously in May, 1720. The following epigram describes the career of a typical speculator:

"Monday, I bought a share;
 Tuesday, I was a millionaire,
 Wednesday, all was bright and fair;
 Thursday, I had my chaise and pair;
 Friday, I went to the ball,
 Saturday, to the hospital."

The South Sea Bubble.—About the same time the South Sea Bubble was expanding and exploding in London. The South Sea Company, founded in 1711, had a royal monopoly for trading in the southern hemisphere, and expected to obtain vast quantities of gold and silver from Spanish America. They were, also, to supply the British colonies with Negro slaves and had many other schemes for profitable trading. Like the Louisiana Company, they proposed to pay the national debt out of their profits. Wild speculation raised the price of the Company's shares tenfold, and started an amazing crop of bubble companies.

Among the new flotations were companies for the importation of Flanders lace, for trading in hair, for paving the streets of London, for improving the art of making soap, for a wheel for perpetual motion, for importing walnut trees from Virginia, for a horse insurance, for importing asses from Spain, and one "for carrying on an undertaking of great advantage;

but nobody to know what it is." The major bubble burst in July, 1720, and the minor bubbles quickly followed suit.

Such manias well illustrate the passion of wealth, the optimism and credulity of man, and the tendency of popular movements to outrun the bounds of reason. In these and other ways, they throw much light upon the larger business cycle.

The Modern Business Cycle.—The modern business cycle, extending over a considerable period of years, and often international in scope and influence, has been common in the western world since the Industrial Revolution. In the world market, with its close relationships of transportation and communication, international trade, investments, money, credit and banking, and its network of connections with a few great financial centers, there is a tendency for strong movements to be transmitted from country to country, although minor disturbances are usually of local or national importance only.

List of Crises or Panics.—The most notable crises in the United States were those of 1837, 1857, 1873, 1893, and 1920, with minor crises in 1818, 1826, 1847, 1884, 1903 and 1907. Many of these were international crises. These dates give some support to the theory that a major crisis tends to occur about once in twenty years, with a minor crisis about half-way between, but a close examination of the dates shows that there is no such definite periodicity. All that can be said is that crises occur from time to time, and that there are certain signs of approaching trouble which economists and business men can to some extent interpret.

The Panic of 1837.—The crisis or panic of 1837 came at the end of a time of great internal development, during which there was rapid settlement of our western lands, increase of immigration, building of roads, canals and some railways, wild-cat banking, expansion of money and credit, rising prices, and much speculation in farm lands and city lots. The optimism

of the people outran the development of the country, rapid as it was, and the overvaluation of property, especially land, brought the usual crisis, liquidation and depression.

The panic of 1837 marked the close of a period of prosperity which began about 1822, and is a good illustration of the general rule that prosperity, with its attendant speculation, naturally culminates in a crisis. During this period there was over-investment in internal improvements and in manufacturing, but speculation in western lands was its chief feature.

Speculation in Western Lands.—In 1820, Congress passed a law requiring cash payment for all public lands, and fixed the minimum price at \$1.25 an acre. The state banks lent money freely to settlers and speculators, who paid for the land in bank notes. These notes, when turned into the banks by the land agents of the Government, were immediately lent again to other buyers of land. Thus, as President Jackson said, the bank notes were “merely instruments to transfer to speculators the most valuable public lands and pay the government by a credit on the books of the bank.”

The extent of speculation in land and expansion in bank credit is partially indicated by the receipts from the sale of public lands, which were \$1,880,000 in 1830, but which were \$12,564,000 in 1835, and \$20,075,000 in 1836. Of course, the lands thus bought at \$1.25 an acre were transferred again and again to other buyers at far higher prices.

General Speculative Fever.—There was, in fact, a speculative fever all over the United States, as well as in other countries, such as England, which were heavily interested in American investments. The states borrowed heavily for roads, canals and other internal improvements, and even went so far as to lend their credit to unsound banks. There was also much extravagance on the part of individuals, especially the new rich, who spent their money and credit almost as fast as

they got it. Such expansion and inflation were bound to collapse sooner or later.

Causes of Collapse.—One of the immediate causes of the final collapse was the crop failure of 1835, which made it difficult, if not impossible, for the farmers to pay the speculators for their land, or to pay the merchants who had advanced them supplies on credit. The speculators and merchants, in turn, could not pay their loans at the banks, and the banks could not redeem their notes in specie; and thus the preliminary tremors of loss and lack of confidence were transmitted from one class of people to another until they spread throughout the United States and even to foreign countries.

The Specie Circular.—Then, in the summer of 1836, President Jackson issued his celebrated "Specie Circular," requiring all payments for public lands to be made in specie, that is, in gold or silver, instead of bank notes. This was a terrible blow to the banks, whose credit was already shaken. Thus one thing led to another until, early in 1837, the panic came. In May of that year, every bank in the United States suspended specie payments, there was a general scramble for "hard money," with widespread failure among western farmers, southern planters, manufacturers, merchants and banks at home and abroad.

Other Notable Crises.—The long depression, which followed the panic of 1837, ended about 1842, after which there was another period of extensive railway building, settlement, speculation, borrowing and unsound banking, checked by the minor crisis of 1847, but going on to the major crisis of 1857 which, however, was not so severe as that of 1837.

The Civil War, the issue of greenbacks and national bank notes, an enormous expansion of public and private credit, and a tremendous rise in prices, were the salient features of the next period. It was also a time of rapid settlement, rail-

way building in advance of settlement, promotion of new enterprises, speculation and extravagance, ending with the panic of September, 1873, from which business in the United States did not recover for about five years.

1873 to 1893.—Then followed a period of contraction, rather than inflation of the currency, for, as business expanded, there was a relative scarcity of gold and silver and a consequent fall in prices. This greatly injured the farmers of the eastern states and debtors everywhere, and made trouble for merchants and manufacturers, who found it hard to do business in a falling market. For all that, rapid settlement went on, thousands of miles of railways were built in expectation of settlement and traffic, promotion of companies of every kind was extensive, and often unsound, and the monetary and banking systems of the country were unsatisfactory and unsettled. Apparently, the panic of 1893, which marked the end of this twenty-year cycle, was primarily a financial crisis, resulting in widespread failure of banks, railway companies, manufacturers and merchants. It was followed by a depression lasting until 1896 or 1897, when business began to revive.

1893 to 1914.—The revival of business which began at this time continued, with backsets in 1903 and 1907, until the summer of 1914. It was, no doubt, closely connected with the increased production of gold in Colorado, the Klondike, Alaska, South Africa and elsewhere, which, by making money more plentiful, brought about a rise in prices, not only in the United States but throughout the world. As usual, rising prices stimulated business activity and there is no telling how long the good times would have lasted, but for the World War, which upset all human calculations.

War-Time Inflation.—It was thought, at first, that the war would cause universal bankruptcy; but the governments, and the banks of every country came to the rescue with liberal, if

not lavish, credit. This, together with vast issues of paper money in Europe and demand for munitions of war and other supplies, caused prices to rise, and business seemed to be good because of the piling up of paper profits. People who sold at the top of the market made enormous profits, but the general run of farmers, manufacturers and merchants had to stand the collapse of prices which began early in 1920. From February, 1920, to June, 1921, average wholesale prices in the United States, as measured by Bradstreet's index number, fell from 20 86 to 10 61, or about 50 per cent

Theory of Crises.—Many theories have been advanced in explanation of business cycles, but none seem to account for all the facts. Perhaps they can never be explained; and yet, in the midst of much complexity, the following features stand out with unusual prominence

The Banking Panic Cured.—In the first place, widespread failure of banks in time of crisis, so common in the United States, is almost unknown in Europe and Canada, and may therefore be laid at the door of former state and national banking systems; unless the American business man, with his western optimism, is to bear the blame. It is noteworthy that, under our new Federal Reserve System, the tremendous fall in prices of 1920-1921 was sustained with relatively few bank failures, or failures of other strong business concerns.

Prosperity Causes Crises.—Secondly, the general business crisis or sudden collapse of prosperity, as distinguished from the bank panic, is the natural ending of a period of rapid change, during which business men find it difficult, if not impossible, to adapt themselves to the changing environment. This has been particularly true of the western world since the Industrial Revolution, especially in new and progressive countries and in new and growing industries. Thus it is that the severest crises have occurred in the most progressive countries,

like the United States, and in the most progressive industries, like the railways and the steel industry. Therefore, it is not far from the truth to say that crises are "the growing pains of progress."

Risks of Business.—Thirdly, the future is unknown, and yet business men must carry on as though they were sure that bread cast on the waters would be found after many days. The farmer, in a series of seasons, is fairly sure of a good return; but the merchant is not quite so sure of his profits, and the manufacturer and railway builder still less so; and yet they must take chances and often long chances, with no definite knowledge of future change, and no assurance against failure and loss.

Lapse of Time Between Investment and Profits.—This situation, too, is made more difficult because of the long period of time which, in many cases, must elapse between the starting of a business enterprise and the receiving of profits therefrom—sometimes as much as five or ten or twenty years. Most of our transcontinental railways were years in building, and after that it was years before the stockholders received any dividends—if, indeed, they did not lose their entire investment. Many a promising mining venture has required years of development and experiment before yielding profits; and many a manufacturing or mercantile concern has had the same experience.

During the time of building, development and waiting, many unforeseen changes may occur and the most careful calculations may be completely upset. There is, therefore, a speculative element in all business, especially in long-time enterprises, so that even the best business men make mistakes, and these mistakes, as they accumulate, are largely responsible for the weak situation which precedes a crisis.

The Contagion of Confidence.—Fourthly, the optimism

of men, especially those of new and growing countries, leads them to take the risks of business, with no other guide than the inadequate experience of the past and their ability to deal with new situations as they arise. Not only so, but success begets confidence, and confidence is contagious; so that whole groups and masses of men cheer one another on to greater hopes and bolder ventures, until the ideal outruns the actual, the future is capitalized beyond all reason, and investments are made which can never yield adequate returns. But, when a crisis comes, the golden mist is cleared away, the true situation is revealed, and men see that they have been blowing bubbles and chasing rainbows. Unquestionably, the psychology of the crowd can throw much light on the gyrations of the business cycle.

Expansion of Credit.—Fifthly, it is chiefly by means of credit that business men expand and extend their operations beyond the limit of safety. If they had to depend on metallic money alone, and there was no government paper money, bank notes, bank deposits, commercial paper, stocks and bonds, nor negotiable promises of any other kind, they could not go ahead very fast nor take many risks. But, in a growing community, credit is the very life-blood of business and business men are scarcely to be blamed if they sometimes overdraw on that great source of vitality and energy.

Great Expectations.—Therefore, young and enterprising business men, who are leaders in time of prosperity, borrow from banks, trust companies, insurance companies and investors, near and far; giving in return notes, mortgages, stocks, bonds and other promises, partly based on property, partly on expectation of future profits. If these expectations are realized, all is well; but, if not, both givers and receivers of credit are disappointed and, possibly, ruined. Moreover, weak and struggling concerns, instead of being eliminated one by one,

are carried along by their friends and creditors until the day of crisis, when they fall together and drag down many others with them.

Responsibility of Credit Grantors.—Good and necessary as credit is at all times, it may be and often is a stimulus to over-confidence and over-investment, reinforcing the natural optimism of mankind and leading blindly to crisis and disaster. Hence the importance of bankers and other credit grantors in any business community. The wise and courageous banker, true father confessor of business men, can do much to stabilize conditions by the proper use of credit and by serving both borrowers and lenders as guide, philosopher and friend.

Inflation of Money and Credit.—Sixthly, the natural optimism of man and the accommodating spirit of credit grantors are greatly stimulated by monetary inflation and the consequent rise of prices and profits. During the World War, prices rose enormously because of world-wide expansion of credit, and this inflation, coupled with the destructive effects of the war itself, was the chief cause of the crisis of 1920. Similarly, the crisis of 1873 was closely connected with the inflation of money and credit during and after the Civil War, and it would be hard to mention a single modern crisis in which those causes have not played a more or less important part. In view of this, a recent writer, Mr. A. H. Hansen, says, "The cycle of prosperity is at bottom a question of money, credit and prices."

Overproduction.—Seventhly, overproduction of consumers' goods is a result or a symptom rather than a chief cause of industrial crises. Of course, a crisis always results in a fall of prices and an accumulation of goods unsalable at former prices, and many people think that this temporary surplus or glut is a primary rather than a secondary feature of the crisis, thus confusing effect with cause and putting the cart before

the horse. Unbalanced or disproportionate production, such as overproduction of farm products with underproduction of manufactured goods, often causes serious trouble; but general overproduction of food, clothing, shelter and other consumable goods, if it were possible, would merely give abundance and prosperity to everybody.

A Problem for Economists.—However that may be, a thoroughgoing study of this subject is of the greatest importance, both theoretically and practically. Inasmuch as improvements in banking have mitigated if not altogether prevented the banking panic, we may hope for some relief from the more general industrial crisis also. Scientific study of the subject, scientific training and long experience on the part of business men, wisdom in borrowing and lending, improved methods of corporation finance, better organization of business in general, and higher standards of business honor—all of these can do much to bring about safe and sane ways of doing business and to reduce the worst effects of crises, when they come.

Business Barometrics.—For all that, it is probable that the industrial cycle will continue to revolve, so long as industrial progress goes on; for they are closely connected, if not inseparable. Yet the study of economics has thrown much light on these obscure and complicated movements, has made a certain degree of foresight and forecasting possible, and may yet develop a scientific system of prediction of business weather sufficient to justify the high-sounding title of "business barometrics."

SUPPLEMENTARY READINGS

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QUESTIONS AND TOPICS

1. Savages are subject to the changes of nature Explain.
2. The business cycle is of recent origin Explain.
- 3 Why is it called a cycle?
4. Regularity of production is a striking feature of modern life Explain
5. Explain the sun-spot theory What do you think of it?
6. Does history repeat itself?
7. Sketch the history of the Tulip Mania
- 8 How are we connected with the Louisiana Company?
- 9 The psychology of the business cycle
- 10 Fill in the historical sketch of American cycles with further details
- 11 Was President Jackson right in issuing the Specie Circular?
12. Show that a great crisis spreads all over the business world Does it reach the interior of Africa?
- 13 Explain inflation and contraction of money and prices.
- 14 Give a sketch of the cycle from 1907 to 1920.
- 15 What caused prices to rise during the war?
- 16 Prosperity causes crises Explain
- 17 How can bankers help to prevent crises?
- 18 How has the banking panic been prevented?
19. Is overproduction the chief cause of crises?
20. Can we foretell the business weather?

CHAPTER XIX

FOREIGN TRADE

Domestic and Foreign Trade.—Apart from the fact that foreign trade is carried on across international boundaries and, therefore, is often more or less restricted, there is no important distinction between it and domestic trade or commerce. If our thirteen original states had not united in 1789, there might have been in North America a number of English-speaking nations, each surrounded by its tariff wall, and much of the trade which is now domestic would then have been foreign or international. But now goods can go freely from the Atlantic to the Pacific and from the Mexican to the Canadian border, and, taking both size and wealth into consideration, the United States is the greatest free trade area in the world. Compare with this the condition of western Europe, where there are no less than twenty-seven distinct nations—an economic and political disunion truly deplorable.

Advantages of Foreign Trade.—The advantages of foreign commerce are the same as those of domestic trade, and are based on the specialization or division of labor. A farmer and his family could, if necessary, make his own clothes, wagons, harness and furniture, as the backwoodsman used to do; but he finds it more profitable to give his time to farming and to buy manufactured goods from town and city. Many townsfolk could, if necessary, raise their own fruit, vegetables, pork and beef, wheat and corn; but they prefer to carry on manufacturing and merchandising and to buy their foodstuffs from real farmers. In brief, every man tries to do what he

can do best and, as a specialist, produces as large a surplus as possible to exchange with the surplus products of other specialists. Obviously, this makes for increased production and a variety of commodities and services undreamt of in primitive economy.

Regional Specialization.—The regional division and specialization of industry, also, is of great importance. Pennsylvania, because of her supplies of coal and iron and her central location, can afford to devote her capital and labor chiefly to manufacturing rather than agriculture, and to buy most of her food products from the Middle West. Nebraska, on the other hand, devotes her attention chiefly to agriculture and cattle raising, and buys most of her manufactured goods from Pennsylvania and other eastern states. Both Nebraska and Pennsylvania could be largely self-sufficient, but it is better for both states to do what they can do best, at the lowest cost, and to exchange their surpluses with one another. Of course, Pennsylvania farms her good land, and Nebraska manufactures more or less; but, under free competition, each region must give chief attention to its most profitable industries.

Trade Unavoidable.—Some regions, again, are almost or wholly lacking in certain essential commodities, and are absolutely compelled to trade with others. New England has no coal and must buy from Pennsylvania and other coal producing states. The prairie states have little or no lumber or other building material, and must obtain them in exchange for such products as they have. Our northern states, unable to raise cotton, oranges, olives and other sub-tropical products, buy these from the southern states, and ship them lumber, wheat, beef, dairy products and manufactured goods in exchange.

Causes of Regional Specialization.—Therefore, we find in the United States a marked degree of regional specialization of products, depending on natural resources, climate, trans-

portation, character of the people and other circumstances. Fishing and shipbuilding are carried on near the sea and the Great Lakes. Lumbering is most profitable along the Canadian border and in some of the southern states. Coal is mined chiefly in Pennsylvania, West Virginia, Ohio and Illinois. Gold and silver are mined in California, Colorado, South Dakota and other mountainous states. Nearly three-fourths of our crude petroleum is obtained from Oklahoma, California, and Texas, four-fifths of our iron ore from Minnesota and Michigan, five-sixths of our manufactured goods are made in the northeastern and north central states, and far more than half of our farm products are raised in the Mississippi Valley.

The result of this regional specialization is that in every part of our country there is a surplus of certain commodities and a lack of others, and this inequality is equalized by trade and transportation, so that every region obtains the products of every other region in exchange for its own.

Imports of the United States.—Foreign trade, though more or less restricted by tariffs, is based upon international specialization or division of labor quite similar to that which gives rise to domestic commerce. Many commodities are not produced at all in the United States, and many others are imported from abroad which could be produced at home, though at higher costs. Among the former are tea, coffee, cocoa, coconuts, Brazil nuts, bananas, india-rubber, ivory, mahogany, raw silk, platinum and diamonds. Among the latter are certain wools, cottons, hides, woods, tobaccos and chemicals, copper and other ores; fish of many kinds; and even cereals and meats, in the same class though different in quality from our domestic products. In this way we obtain a far greater variety of things than we could produce at home; and raw materials without which our manufacturing and export trade would be seriously handicapped.

Our Exports.—In exchange for these and other imports, we export a great variety of domestic products. In the year 1921, over 53 per cent of our exports consisted of raw materials and foodstuffs, while 37 per cent were manufactured goods ready for consumption, and 9 per cent were partially manufactured, such as steel plates and copper rods. Among the manufactures exported are agricultural implements, automobiles, locomotive engines, sewing machines, typewriters, electric machines, tools, cars and other railway equipment, cotton goods, boots and shoes, photographic goods, and a great variety of commodities made of iron and steel, copper, lead and other metals. In fact, the United States, whose chief industries in former years were agriculture, lumbering and fishing, is now one of the great manufacturing countries of the world, and the time is approaching when most of her food products will be consumed at home and manufacturing will constitute the bulk of her exports.

"Favorable" and "Unfavorable" Balance of Trade.—In examining the statistics of our trade with various nations, we find that, in most cases, the value of our exports is greater than the value of our imports, and that in others the imports exceed the exports in value. When there is an excess of exports over imports the balance is said to be in our favor, because it was formerly thought that such a balance must be paid in specie, that is, in gold and silver. On the other hand, when there is an excess of imports over exports, the balance is said to be unfavorable, as requiring gold and silver to leave the country.

The Mercantile Theory.—This language is a survival of the old theories of the economists of the "Mercantile School," who thought that gold and silver were the most desirable kinds of wealth, and that foreign trade was useful chiefly because it brought the precious metals into a country whose exports

were relatively large. We now know that, in the long run, imports and exports balance each other, and that it is not particularly good for a country to have an enormous stock of gold and silver, except that it may be sent abroad, later, in exchange for more useful goods. So the advantage of our trade with particular countries cannot be measured by the balance due to us, except in so far as it gives us purchasing power which we may spend or invest elsewhere.

Our Trade with Canada.—One might think that little advantage could be gained by trading with Canada, whose resources are so similar to our own; but Canada, among our customers, is second only to Great Britain. In the year 1913, our exports to Canada were valued at \$403,000,000, and our imports from Canada at \$142,000,000, leaving a balance in our favor of \$261,000,000. Our exports to Canada consist chiefly of manufactured goods, and our imports are chiefly wood-pulp, wheat, lumber, fur, fish, and other northern products. Some extreme protectionists would discourage the importation of these things, all of which could be produced at home; but if we do not buy from Canada she cannot buy from us, and such a policy would destroy all our foreign trade except that with tropical countries.

Our Best Customer.—Our best customer is the United Kingdom which, in the year 1913, imported goods valued at \$541,000,000, and exported goods to us valued at \$229,000,000, leaving a gain or balance in our favor of \$312,000,000. We import from Great Britain chiefly manufactured goods, and we export to her food products, raw materials, and manufactured goods somewhat different from those imported. Here, again, we cannot afford to prohibit or seriously discourage imports from Great Britain, as she could not long afford to buy from us without sending us something in return.

Our Trade with the Tropics.—The balance of our trade

with tropical countries is usually against us, as we buy from them more than we sell to them. In our trade with Brazil, for example, our imports for the year 1913 were valued at \$101,000,000, consisting chiefly of coffee and rubber, and our exports were valued at \$40,000,000, leaving an "unfavorable" balance of \$61,000,000. But this "unfavorable" balance is not unfavorable at all, for we need Brazil's coffee and rubber and we pay for them by our surplus of exports to other countries.

Total Exports and Imports.—In the year 1913 the total exports of the United States were valued at \$2,400,000,000, and the total imports at \$1,800,000,000, leaving a "favorable" balance of \$653,000,000. A similar excess of exports over imports has existed every year since 1894, amounting to about \$8,700,000,000 in the twenty years ending 1913, or a yearly average of about \$435,000,000. There is nothing particularly "favorable" about this enormous balance, except in so far as it has enabled us to pay our debts and to make investments abroad; but it is something of a puzzle to explain why we should be always sending more goods to foreign countries than they are sending us in return.

Many people still hold the old theory of the balance of trade and think that the twenty-year balance of \$8,700,000,000 must have been actually paid in gold, but it could not have been paid in that way, as the total amount of gold money in the world in 1913 was less than \$8,000,000,000. Besides, in the same twenty years the United States actually exported more gold than it imported, so that the enormous excess of exports could not have been so "favorable" after all.

Visible and Invisible Items of Trade.—The explanation is that the figures of exports and imports refer only to goods exported and imported, which are often called "visible" exports and imports, and take no account of payment for services

rendered, such as the transportation of American freight in foreign vessels, the services rendered to American tourists in foreign countries, nor the remittances sent by immigrants to their friends abroad. It is estimated that American travelers in Europe before the war spent as much as \$100,000,000 a year, and that the remittances of recent immigrants may have amounted to \$200,000,000 a year. Then, if we allow another \$100,000,000 for oceanic freight charges, we have a total of \$400,000,000, or more, to be deducted from our "favorable" balance on account of these three items alone.

Moreover, before the war we were paying interest to foreign holders of American stocks and bonds, as well as payments on the principal of our foreign-held debt; so that these obligations also had to be charged against our foreign balance, and may be counted as invisible imports.

Exports and Imports Tend to Be Equal.—If, after deducting all such "invisible items," there is still a balance left, we may assume that the United States is accumulating credits abroad, either temporary or in the form of permanent investments. As a matter of fact, when we count all visible and invisible items, imports and exports of goods, money and services tend to equal one another, and it is very seldom that any large balance is paid in gold. However, during the World War, the United States did import about \$1,500,000,000 more gold than she exported; but even that vast amount did not begin to balance the excess of exports over imports of merchandise.

It is well to keep in mind the basic principle of foreign trade, that exports are paid for with imports and imports with exports. If there were a permanent excess of exports over imports, it would mean that we were letting foreign countries have our goods for nothing, or that we were investing our credits abroad.

Trade of Debtor and Creditor Nations.—In general, it

may be said that while a country is borrowing, its imports tend to exceed its exports, as it borrows chiefly foreign goods. When, however, it has to pay interest and principal of the debt, the exports tend to exceed the imports, as debts are usually paid by export of domestic products. (Also, when a country is investing abroad, it does so by means of an excess of exports, rather than money; and it will be paid, if paid at all, in imported goods. Therefore, when a country becomes a creditor nation, as England was before the war, its imports tend to exceed its exports, because it is receiving interest, profits and, possibly, part of the principal in the form of goods.

Sterling Exchange.—It is interesting to follow the movements of goods and gold to and from the United States since the Great War began. At first, as a debtor nation, we were called upon to meet certain foreign obligations in cash, and for a few months in 1914 there was a considerable export of gold, and exchange on London rose from about \$4.86 to \$5.50 on July 31, 1914

Before long, however, it was evident that England and her allies needed our goods far more than our money, so that our exports increased rapidly, and, notwithstanding large imports of gold, foreign exchange began to fall. Drafts on London went as low as \$4 50 on September 1, 1915, and would have gone much lower but for liberal extension of credit by American investors and banks. This caused the rate to rise to \$4.76 in April, 1916, where it remained until the war was over. After the war, sterling exchange fell to a lower point than ever before, touching \$3.18 on February 4, 1920; but since that time it has risen again, and on June 15, 1923, it stood at \$4.60.

Foreign Exchange.—What is, known as "foreign exchange," or the market value of foreign drafts and paper money, usually depends on the bullion content of the standard coins of various countries. For example, the English sovereign

or pound sterling is normally worth about \$4 86, because it contains \$4.86 times as much pure gold as the American gold dollar. Therefore, drafts or paper money redeemable in gold in London cannot go far above or below \$4 86, which we call *par*, without causing the exportation or importation of gold, and the maximum premium or discount on such paper is determined by the cost of shipping gold.

Par of Exchange and the Gold Points.—Therefore, in normal times, when British paper money and drafts are redeemable in gold, exchange on London, which is commonly called “sterling exchange,” cannot go much above \$4.88 or much below \$4.84, as the cost of shipping gold across the Atlantic is about two cents per British pound sterling. These two rates of exchange are called the “gold points”; \$4.88 being the gold exporting point, and \$4 84 the gold importing point. In other words, when the rate of sterling exchange goes above \$4 88 it pays to send gold to London rather than to buy British paper money or drafts on London at that rate; and when the rate of exchange goes below \$4 84, it pays to bring gold from London rather than to accept British paper money or drafts at such a discount. All of this is based on the assumption that both British and American paper money and drafts are redeemable in gold.

But, soon after the war began, the Bank of England and other British banks suspended specie payment, so that British bank notes and drafts were no longer redeemable in gold. Hence the discount on British or sterling exchange as compared with American notes and drafts, which were still payable in gold.

Depreciation of Foreign Money.—Sterling exchange, as stated above, reached the low point of \$3.18 in February, 1920, but never went so low as that of other European countries, and recovered much more rapidly. For example, the

French franc, normally worth 19.3 cents, was, on June 15, 1923, quoted at 6.33 and the Italian lira, of the same par value as the franc, was quoted at 4.63 cents. This depreciation is due to the suspension of specie payments, the enormous issues of paper money, and the possibility that it may never be redeemed at par. In this regard Germany and Russia are in far worse condition, for the German mark, formerly worth 23 83 cents, was quoted at 00095 cent on June 15, 1923, and the Russian ruble, of a par value of 51.41 cents, has sunk to as low a point, so that both German and Russian paper are practically worthless.

Stability of the Dollar.—On the other hand, American paper money and drafts on American banks have remained at par because they have been, directly or indirectly, redeemable in gold, and because no great amount of paper money has been issued. Then, too, the position of our banks has been strengthened by the importation of gold due to the "favorable" balance of trade. In 1914, our excess of exports over imports fell to \$470,000,000; but in 1915 it rose to \$1,000,000,000, in 1916 it was \$2,000,000,000; and in 1917 it reached the enormous figure of \$3,600,000,000. From 1915 to 1921, inclusive, the total excess of exports over imports amounted, in round numbers, to \$18,700,000,000.

Our Stock of Gold.—Of this tremendous balance, at least \$1,500,000,000 has been paid in gold; so that the stock of gold in the United States has increased to \$4,000,000,000—about half of the gold money of the world—and we are now suffering from gold inflation. A still larger amount has been paid by the cancellation of American debts and the importation of foreign securities; but by far the greatest part—more than \$11,000,000,000—has not yet been paid, and constitutes the "Allied Debt," about which there has been so much difference of opinion.

The Allied Debt.—For this reason, the United States is now a creditor nation and, unless the Allied Debts are canceled or scaled down materially, we may expect our “favorable” balance of trade to be much reduced and, possibly, transformed into an “unfavorable” balance. This is because the Allied Debts must be paid in goods or services, if they are to be paid at all, and because our surplus gold is likely to be sent abroad in exchange for goods. In other words, we shall receive usable goods instead of doubtful credits and surplus gold; and, if our imports exceed our exports, we shall be receiving more than we give instead of giving more than we have received. Unless this turn in the tide of foreign trade comes too quickly there can be nothing unfavorable about it.

Must Be Paid in Goods.—The manufacturers of the United States are much alarmed about this threatened inundation of foreign goods, and would like to put the tariff so high as to limit imports very considerably. The Fordney Tariff Act of 1922 was framed with that intention. But if our late Allies and present debtors may not send us goods, they cannot pay us at all, and for this reason many manufacturers would have us cancel the debts altogether.

Can the Debts Be Paid?—Possibly, the debts should be heavily reduced, in order to save Europe from bankruptcy; but apart from that, there is no good reason why the entire debt should not be paid in the course of time. If the debt were funded into long-time bonds at low rates of interest, our Allies could probably carry it; our manufacturers would have nothing to fear; and the people of the United States would enjoy an enlarged income of goods and services. Great Britain has already arranged for the payment of her debt in this way, and it is probable that similar arrangements will be made with our other Allies.

The American Tariff.—American manufacturers have

always favored a protective tariff, as they have found it hard to compete with foreign manufacturers, who have had the advantage of a large supply of labor, both skilled and unskilled. The first federal tariff act, which was little more than a revenue tariff, was passed in the year 1790, just after the formation of the Union. Later tariffs were more highly protective, especially after the Civil War. As a rule, the Republican Party has stood strongly for protection, while the Democrats have leaned toward a revenue tariff, although not altogether repudiating protection.

Ad Valorem and Specific Duties.—The tariff is a system of taxes levied on imported goods, usually in proportion to their value, but sometimes according to quantity. Thus, a tax of 30 per cent on the value of imported sugar is called an “ad valorem” tax or duty, but a tax of 2 cents a pound is called a “specific” tax. It is worth noting that a specific tax is often higher than it appears to be; for example, a tax of 2 cents a pound on sugar worth 5 cents is a duty of 40 per cent. Also, when both ad valorem and specific duties are levied on imported goods, as is sometimes done, the total rate may be very high.

For Protection and Revenue.—The American tariff has usually been arranged so as to yield both protection to home industries and a revenue for the federal government, but, as in other efforts to serve two masters, these purposes are not always in harmony. For example, a duty on furniture so high as to prevent importation would yield the greatest possible protection to the American manufacturers of furniture, but would yield no revenue at all. On the other hand, a tax of 10 per cent might greatly encourage importation and yield a maximum revenue, but the manufacturer would probably think that he was not sufficiently protected against foreign—probably Canadian—competition.

Regional Opinions on the Tariff.—Naturally, the people of our northeastern and north-central states have usually favored high protective tariffs, while those of the south and west have favored free trade or tariffs for revenue only. And yet, when cotton and steel mills are established in Alabama, or beet-sugar factories in Colorado, many people in those regions are converted to protection. Also, farmers along the Canadian border are apt to demand protection against Canadian farm products, while they may be clamoring for free trade in manufactured goods, and may even wink at smuggling.

The Reciprocity Proposal of 1911.—Unquestionably, if the United States and Canada were one country, it would be good for both to have free trade throughout the length and breadth of the land; and it is hard to see why, under present conditions, an economic wall should be erected between countries which have so much in common. In fact, the proposed Reciprocity Treaty of 1911 provided for reduction of duties on both sides of the line and for a large measure of free trade. The treaty was ratified by the United States Senate, but it failed to pass in Canada because of the opposition of the eastern cities, the transcontinental railways, and other special interests. Then, too, it was feared that economic union would lead, sooner or later, to political union and the separation of Canada from the British Empire.

Reciprocity Rejected.—Reciprocity was favored by American manufacturers, as it would have enlarged the market for their goods. For the same reason, it was opposed by the manufacturers of eastern Canada. Many Canadian farmers, especially in the northwest, favored reciprocity, as it would have enlarged their market; but many American farmers, for the same reasons, desired to keep them out. The question of the tariff, therefore, always involves a conflict of special interests,

and it is seldom, if ever, decided on grounds of general public welfare.

The Infant Industry Argument.—Of the many arguments in favor of protection by means of duties on imports, the strongest is the “infant industry” argument, which claims that young and promising industries should be protected against foreign competition, for a time, until they are strong enough to compete with all comers both at home and abroad.

Full Grown Infants.—This argument is still in use, although our great manufacturing industries have long outgrown their infancy. At first, it really was hard for our inexperienced manufacturers to exist in competition with long-established European, especially British, concerns. But now that they are full grown, the argument has lost much of its force, except that industries long dependent on the tariff crutch may find it hard to stand on their own legs.

The Cost of Production Argument.—At present, the chief support of protection is the “cost of production” argument, to the effect that, as wages are far lower in Europe and Asia than in America, the tariff should be so high as to offset the difference between their costs and ours, enabling us to compete with them on even terms.

Stated thus, the argument looks plausible; yet it must be used with caution, lest it should prove too much. As Professor Taussig has said, lemons could be raised in Maine and grapes in Scotland if the import duties were put so high as to equalize costs of production. Of course, no one would think of doing anything so ridiculous, as Maine and Scotland are not adapted to the production of these fruits, and it pays them better to produce lumber, fish or woolens, and to exchange them for such fruits as they may need. It is, therefore, hard to say when the cost of production argument is to be applied and when it is not.

Moreover, it is not true that the costs of American manufacturers are always higher than those of foreign countries. In many cases our high wages are more than offset by our superior natural resources, by the use of improved machinery and the efficiency of American labor and management. In fact, our exports of manufactured goods are increasing year by year, and European manufacturers are clamoring for protection against the highly paid labor of the United States.

Desire for Diversified Industries.—Another strong support of protection is the “diversified industries” argument, which holds that a country should be largely, if not wholly, self-supporting, in order to be economically as well as politically independent, in view of the danger of world-wide crises or of war. The United States, in this view, should not be an agricultural state, merely, but an industrial or manufacturing state as well; and England, which is an industrial state chiefly, should give more attention to agriculture and, if necessary, lay import duties on foreign farm products.

The Home Market Argument.—Closely connected with this is the “home market” argument, which contends that the United States should build up its manufacturing cities by protection, if necessary, that the farmers may have a market at their door, instead of sending their produce, at great expense, to foreign countries. Similarly, it is held that England should encourage farming, in order that her manufacturers might sell most of their goods at home rather than in foreign lands.

Diversification Versus Specialization.—In answer to the argument for diversified industries, it may be said that it seems to hark back to pioneer days, when the backwoodsman and his family tried to do everything, and we had far too much diversification of industry. Economic progress has moved away from this toward greater specialization; the household industries have left the home for the factory; and

the small industries of the small town also have been displaced by the large industries of the great city.

Losses Due to Economic Progress.—Possibly, the family has lost something in its dependence on the factory, while the small town has lost in interest and importance as its little industries and the best of its young men have been attracted to the cities. It might be well if every part of every country had a more varied industrial life, though whether this should be encouraged by means of protective tariffs may well be questioned. The argument logically leads to state and local protection within the United States—unconstitutional at present, and quite out of the question from the economic point of view.

Importance of the Foreign Market.—As to the "home market" argument, the American farmer will reply that the home market for him is quite insufficient, and that most of his present troubles come from the relative failure of the foreign market due to the after-effects of the war. The home market is fine for the farmer, provided that he does not have to pay too much for it in the way of high prices for manufactured goods and loss of his foreign customers.

Political and Military Aspects of Protection and Free Trade.—Both the argument for diversified industries and the plea for the home market may be rather weak on the economic side; but it must be admitted that they may have some weight from the political and military points of view. The foreign market may be better than the home market so long as peace prevails; but in time of war a nation is often thrown on its own resources, and it may be well not to have all its eggs in one basket.

Certainly, Germany's strength in the late war was partly due to the fact that she was neither an agricultural nor an industrial state, but a good deal of both. Russia, on the other hand, was weak on the industrial side, and England was in

grave danger of starvation through the submarine blockade, because she had on hand barely a month's supply of food.

Yet this argument can be carried too far. If England, for example, had sacrificed her manufactures and foreign commerce to her agricultural interests, she might have impoverished herself so that she would have lacked battleships, men, money and all the other sinews of war. Besides, free trade, by creating a network of business relations throughout all the world, is one of the best guarantees of world peace.

Is the Game Worth the Candle?—All things considered, the balance of economic argument leans toward free trade, rather than protection; although it must be admitted that certain political and military considerations may justify a moderate protective tariff. But as the general public of any country come to realize that interference with freedom of trade, both domestic and foreign, tends to limit markets, to discourage production, and to increase the cost of living, they are more and more inclined to scrutinize proposals for increased protection and to consider whether the game is worth the candle.

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QUESTIONS AND TOPICS

1. There is no essential difference between domestic and foreign trade Explain
- 2 Could we be prosperous without foreign trade?
- 3 What is regional specialization?
- 4 What is national specialization?
- 5 Could Minnesota do without the products of other states?
6. What foreign products do we most need and use?
- 7 Why should we import any copper ore, cotton or woolen cloth, tobacco or wheat?
- 8 Mention our best customers in order of importance
- 9 What are visible and invisible exports and imports?
- 10 What are a "favorable" and an "unfavorable" balance of trade?
- 11 What is foreign exchange?
- 12 Explain the rise and fall in the rate of sterling exchange since 1914
- 13 What are the "gold points"?
- 14 What is the par of sterling exchange?
15. Why are German and Russian rates of exchange so low?
16. Should all money be redeemable in gold?
- 17 Can the Allied debts be paid?
18. What is a protective tariff?
- 19 What is a revenue tariff?
20. Can a tariff be for revenue and protection at the same time?
21. Why do the people of our agricultural states incline toward free trade?
22. What is reciprocity?
23. Explain the chief arguments for and against a protective tariff
24. Was England's free trade policy condemned by her experience in the war?

CHAPTER XX

PUBLIC SERVICE

The State as a Factor in Production.—Economists usually say that there are four factors in production. land, labor, capital and business organization or enterprise; and four shares in distribution. rent, wages, interest and profits; but there is still another agency, the state or government, so important that it may almost be considered as a fifth factor in production and a fifth claimant to a share in the social income.

Economic and Political Organization.—Among the many groups into which modern society divides itself, economic and political organizations stand out in sharp relief, and in contrast to one another. The organization and conduct of business is for the most part in private hands, as farmers, manufacturers, merchants and other enterprisers carry on business for profit, which is their chief, though not their only inducement and reward. And yet, these same people organize themselves politically for public ends, knowing that, without government of some sort, private business could hardly be carried on.

Broadly viewed, business is a voluntary organization or grouping of persons, producing and exchanging goods and services for private gain; whereas government is a compulsory, authoritative organization, seeking to establish the basic principles, rules or conditions of general welfare, and is usually carried on for service rather than for profit.

National, State and Local Government.—In the United States, Canada, Australia, Germany and other federated coun-

tries, public authority is exercised by the national government, the states or provinces, the municipalities and other local bodies. The authority and activities of government, therefore, are divided, and the relative importance of public service may be roughly measured by national, state, and local expenditures, respectively. The expenditure of all the governing bodies is continually increasing, not only in the aggregate but per head of the population.

Public Expenditure.—In the year 1850, the gross national expenditure of the United States was only \$39,000,000; or, on the average, \$1.71 per capita; in the year 1913 it amounted to \$952,600,000, making an average of \$9 82 per capita. However, as the burden of taxation is measured by ability to pay, and ability by national wealth and income, it should be noted that national wealth has increased at least as rapidly as national expenditure. In 1850, the national expenditure was equal to .0054 per cent of the national wealth, and in the year 1913 it was about the same, being .005 per cent of the nation's wealth, according to official estimates.

State and Local Expenditure.—Local expenditure has increased at a faster rate, but the local governing bodies render far greater service than they did seventy-five years ago. In the year 1850, the national government spent 49 per cent, and the state and local governments 51 per cent of the total public expenditures; but in the year 1913, national expenditure was but 31 per cent, while state and local expenditure was 69 per cent of the total. The states, again, are far less important in this respect than the local bodies, for in that year they spent only 8 per cent of the whole, except for common schools, while the local governments spent 61 per cent. Thus, the local governments come first in order of expenditure for public service; the national government comes second; and the states are far behind.

Variety in Public Service.—But all the governing bodies do many things which were formerly left to private initiative, or were not done at all, as may be seen by looking into the public accounts. Take, for example, a typical New England town like Marblehead, Massachusetts, which, with a population of 7,324 in the year 1920, spent on maintenance no less than \$431,000. Of this amount, \$105,000 was spent for schools, \$71,000 for highways, \$49,000 for protection of persons and property, \$25,000 for charities, \$19,000 for health and sanitation, \$13,000 for soldiers' benefits, \$3,000 for recreation; \$2,000 for libraries, and \$25,000 for the general expenses of the town government.

Expenditure of Boston.—A city like Boston, with a population of 748,000, spends vastly more than a small town like Marblehead, but on the same sort of public service. Out of a total expenditure for maintenance of \$36,600,000 in the year 1920, Boston's expenditure runs as follows: general government, \$1,400,000, schools, \$9,900,000, protection of persons and property, \$6,700,000, highways, \$4,500,000, health and sanitation, \$3,900,000, charities, \$3,000,000, recreation, \$2,000,000, pensions, \$740,000, libraries, \$680,000; soldiers' benefits, \$440,000; unclassified, \$380,000.

The Tax Dollar in Nebraska.—Similar figures might be given to show the services performed by states and counties. For example, the Department of Finance of the State of Nebraska has published an interesting chart showing the expenditure of the average tax dollar in the year 1921. Of that dollar, 81 cents were spent by local bodies, and 19 cents by the State. The State's share was expended as follows: expense of the general government, 3 cents; education, 6 cents; charitable and penal institutions, 3 cents; roads and bridges, 3 cents; state capitol, 2 cents.

Justification of Public Expenditure.—Critics might ques-

tion these various items of expenditure, and yet would have trouble in showing that they were not fully justified. Certainly, the American people are proud of their schools and are likely to spend more, rather than less, upon them. Without them, the rich would send their children to private schools, as many of them do now; but the mass of the people would be illiterate, and the country would be anything but "safe for democracy." Roads and bridges might be operated for profit by private corporations, like the old turnpike roads; but toll gates were an abomination to the American farmer and are not likely to be restored.

Value of Public Service.—Towns and cities might do without police officers, justices, and fire departments, but that would encourage vigilance committees, lynching and incendiarism. Public charity might be abandoned; but that would be throwing an unfair burden on charitable individuals and many of the deserving poor might be left to starve. Health and sanitation might be left to private caprice, but the health of the whole community might be endangered thereby. It may be admitted, perhaps, that governmental service is less efficient than private service, dollar for dollar; but there may be good reason for certain forms of public service, apart from the merely financial point of view.

National Expenditure.—When we consider the services performed by the national government, a somewhat different situation presents itself, as the Congress provides for national defense, regulates interstate commerce, and cares for the general welfare in many other ways. The late Dr. E. B. Rosa, in May, 1921, published a series of charts showing graphically the chief forms of service rendered by the Federal Government, as measured by the various items of expenditure. In the year 1925, the total net expenditure of the Federal Government was, in round numbers, \$677,000,000, distributed as follows: army

and navy, \$258,000,000, pensions and care of soldiers, \$166,000,000; legislative, executive and judicial, \$106,000,000; public works, \$94,000,000, research, education and development, \$30,000,000; interest, \$23,000,000

Under the head of "research, education and development" a relatively small amount was expended for various services, which are likely to be extended, rather than reduced. Among them may be mentioned the Bureau of Census, the Forest Service, the Bureau of Animal Husbandry, Agricultural Extension, the Weather Bureau, the Geological Survey, the Bureau of Mines, the Bureau of Education, the Public Health Service, the Bureau of Labor Statistics, the Federal Board of Vocational Education

Security of Life and Property.—Probably the greatest service rendered by government—federal, state and local—is the security of life and property, which is the basic condition of social life. The army and navy protect us against danger from without, the courts, the police and the army establish order and security within the state. Citizens of civilized countries can hardly imagine themselves without law and order, yet there could be no calamity greater than the breakdown of public authority—witness the anarchy that exists in many parts of China, and the troubles of Russia since the abdication of the Czar. But even those countries are not altogether without public authority of one kind or another, and their experience probably justifies the statement that any government is better than utter anarchy.

Theory of *Laissez-Faire*—As to the extension of governmental activities beyond these basic conditions of social life, there is great difference of opinion. (The French economists of the eighteenth century, followed by many other economists and statesmen, advanced the celebrated theory of *laissez-faire*, or let alone, sometimes called individualism, sometimes the

police theory of government. According to this, government should do little more than establish security of life and property; for, as a rule, that government is best which governs least. Thus, the historian Buckle, in his *History of Civilization* (1858), wrote: "To maintain order, to prevent the strong from oppressing the weak, and to adopt certain precautions respecting the public health are the only services which any government can render to the interest of civilization.

Extension of Public Service.—To this generation the words of Buckle sound like a voice from the tomb, for all governments have gone far beyond the limits assigned by him, and the present tendency is toward still greater activity in the same direction. Certainly, the public school is well established as one of the foundation stones of American democracy, and is making rapid headway in other countries. Then, too, it is generally believed that the state should care for delinquents and dependents, lest they should become a burden on individuals or a menace to society at large. Also, public opinion favors much of our labor legislation and other laws designed to mitigate the evils incident to industrial progress. Moreover, as population increases, there is a growing demand on the part of the poorer classes for legislation providing for a living wage, for accident, health and life insurance, old-age pensions, and the like.

Danger of Doles.—Much may be said for legislation of this sort, protecting people from the consequences of their own weakness and folly, and changing conditions over which they have no control; but there is danger that it may degenerate into the giving of doles to able-bodied idlers, which, sooner or later, would impoverish the state and pauperize the people, even as the Roman proletariat under the Empire were pauperized and demoralized by "bread and circuses," when they were fed and amused at public expense.

Public Service Enterprises.—There is still another field of public service which the governmental bodies of the United States have entered to a slight extent—namely, the so-called “public service enterprises,” in which prices are charged for commodities sold or services rendered. The Federal Government, for example, has a monopoly of the postal service; and various municipalities carry on water works, lighting, telephones and other “municipal monopolies.” Such “municipal trading” is more common in European countries than in America.

The British government owns and operates the tele, and and telephone lines of Great Britain. The French govern for has a monopoly of the tobacco business. The goverarried on India has a similar monopoly of opium. Many reficit to be Germany and other European countries are gov owned and operated, as are practically all thtical influence Australia and New Zealand. In New Zealand, thustralia, Can- also carries on a large insurance business, ope bureaucratic coal mines, and engages in other lines of busin a minimum. America are left to private enterprise. .ve to choose be-

State Socialism.—In view of all that tanagemy .t, as we various countries have done, many ard /mers have them take over one branch of erefore; after anothim until private business enterprise wor.usineyse co exist, and its place would be taken by state soc'it only

Advantages and Disadvantages.—It is often said that state enterprise has a great advantage over private business in that it works for service rather than profit, for the public good rather than private gain. And yet, in so doing, the state is at a double disadvantage: first, in that it is hard to measure the quantity or quality of public service; and second, in that it is continually tempted, under political pressure, to ignore the cost of the service rendered.

Public Service Hard to Measure.—In the first place, the social value of public enterprises—such as the Post Office, the Panama Canal, roads, harbor improvements, irrigation and drainage works—is hard to measure because they are not usually carried on for profit, nor in competition with other enterprises with which their efficiency may be compared. In the case of a private irrigation company, for example, conducted for profit, the financial measuring rod is applied to every part; and, if the enterprise does not yield a profit—that is, a surplus of income over expenses—it goes into bankruptcy, government holders take their losses, and the unprofitable enterprise is discontinued or carried on under better management.

Same Direction of the Taxpayers' Money.—On the other hand, in the case of a governmental irrigation enterprise, conducted for the same purpose as profit, it is possible to spend, say, \$10,000,000, generally believed to be a reasonable sum for the reclamation of arid land which, after the money has been spent, is not worth more than its original value or a mere fraction. True, some new land is thereby put into use, and the benefits are shared by the taxpayers of the country, but the money is expended to far better advantage if the government would not take the tax of 1 per cent to them, and invest it in other public enterprises and other public works, and yet this is often done, and the taxpayers are told that such enterprises are conducted for the benefit of the people and not for profit.

Service Versus Cost from is evidently a question of measuring public service against public cost, which is hard to do without reckoning both service and cost in terms of money. Taxes and public expenditure, of course, may be accurately reckoned; but it is difficult and often quite impossible to estimate the value of the service which the public receive or are supposed to receive for their money.

Political Wire Pulling.—In the second place, it is almost

impossible to separate public enterprise from politics, which tends to increase the cost of public service, if not to reduce its quality. Even in public education, which is relatively free from political influence, its bad effects are often seen, as when public institutions are distributed throughout a state in order to conciliate the people of particular localities rather than to secure economy and efficient management.

Railways of New Zealand.—The state railways of New Zealand, though well managed in many respects, have been more or less hampered by political interference. Some lines have been built in response to political considerations, and both freight and passenger rates have been kept down for similar reasons, with the result that the railways, carried on for service rather than profit, have usually had a deficit to be made up by the taxpayers.

Efficiency Versus Democracy.—Similar political influence may be noted in the railway administration of Australia, Canada and other democratic countries, although, in bureaucratic countries like Germany, it has been reduced to a minimum. Apparently, in many public enterprises, we have to choose between democratic control and efficient management, as we cannot have both at the same time.

Efficiency Defined.—Efficiency, therefore, which is so important in both public and private business, cannot be defined in terms of service only, or of cost only, but in terms of both combined. Efficiency is the obtaining of a maximum of service at a minimum of cost, and does not exist where either factor is lacking. It is often said that our postal service is highly efficient because it distributes mail with great regularity at low rates; but no account is taken of the annual operating deficit, of rent of federal buildings, of depreciation, nor of exemption from taxation; nor is any comparison possible with private enterprise, as the postal service is a state monopoly.

Defense of Deficits.—The postal deficit is defended on the ground that the Post Office is conducted for service and not for profit; but it is hard to measure or weigh the service against the deficit, and thus determine the balance of social advantage or loss. The same might be said of state railways, municipal waterworks, lighting and all other governmental undertakings, all of which would show a deficit if service were always preferred to cost. Such a policy might do for the United States, where few state enterprises are carried on; but for a country like New Zealand, which goes into business on a considerable scale, the policy of sacrificing cost to service would sooner or later lead to bankruptcy. A rich country may for a time enjoy the luxury of unlimited public service, but as it extends its activities it must put its undertakings on a paying basis, or make up the deficit from the bottomless purse of the long-suffering taxpayer.

Should State Enterprises Pay Their Way?—And if any country ever arrives at the goal of state socialism, it will have to make most, if not all of its industries pay their way, and, in addition, set aside surpluses for additions and extensions and for the establishment of new industries. In other words, the state will have to earn profits, as private enterprises do now.

At present, new funds for state enterprises are obtained from private capitalists or from the taxpayers, and deficits are made up from the same source, but when state socialism arrives, if it ever does, the amiable capitalists and taxpayers will have vanished, and the various state industries will have to stand on their own legs.

Business and Charity.—Therefore, public industry should be distinguished from public benevolence; and, where possible, should be carried on, as private industries are, for profit—that is, so as to have a reasonable surplus of receipts over

expenditures, to be used as may seem best, for the general good. If this is not done, and public undertakings show a deficit, they are parasitic industries, and the taxpayers are being sacrificed to the consumers who, as such, have no need of charity. There should be separate accounts for business and charity, else there may be no profit in business and nothing to spare for deserving charity.

Efficiency of Public Servants.—Governments may be strong on the side of service, but they are weak on the side of cost. The public servant, though a fine fellow in many ways, seldom works for the public as he would work for a private employer, and his output, whether in goods or services, is low. Thus public service itself is reduced, when measured in terms of work done by the average public servant. Then, too, as stated above, it is difficult if not impossible to keep politics out of public enterprises, as the public are always demanding more service and lower rates, regardless of cost.

Some Truth in Laissez-Faire.—It is probable, then, that the French economists were not wholly wrong in their prejudice against governmental activity, although they erred in trying to confine the state within too narrow limits. The appetite of the public for public service is insatiable, and they do not realize that they must pay for what they get, directly or indirectly, sooner or later. In the short run, some may gain by spending, while others pay, but in the long run the general public stands to lose by obtaining a minimum of service at a maximum of cost.

So the general public—whether taxpayers or consumers, employers or employees, rich or poor—may well be skeptical in regard to public enterprise, throwing the burden of proof upon those who favor extension of governmental activities, until it can be shown that the service to be rendered will be worth all it is likely to cost.

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QUESTIONS AND TOPICS

- 1 Is the state a factor in production?
- 2 Does it receive a share in distribution?
- 3 What is the state?
- 4 In the United States public authority is divided Explain
- 5 Why do the local governing bodies spend so much more than the states?
- 6 Are state taxes a large proportion of total taxes?
- 7 Give arguments in justification of our various items of expenditure
- 8 Should education be carried on by public or by private schools?
- 9 Is there any proper limit to public activity? If so, what is it?
10. Were the French publicists right in advocating *laissez-faire*?
- 11 What are doles? How are they given in Great Britain?
- 12 What is state socialism?
- 13 The social value of public service is hard to measure Why?
- 14 "How do we measure the value of private service?
15. What is efficiency?

- '16 Is the public servant usually efficient?
- 17 How may politics interfere with public service?
- 18 Should a public enterprise, like a municipal tramway system, be carried on for profit, or for service, or for both?
- 19 Should the railways of the United States be carried on for service or for profit?
- 20 Should the taxpayers' money be taken to make up deficits?
- 21 Should the taxpayers pay for unprofitable irrigation works, harbor improvements or canals?

CHAPTER XXI

PUBLIC REVENUE

Necessity of Compulsory Contribution.—In view of all the services rendered by the various governing bodies of any country, it is clear that they must be maintained at public expense, and that public revenues must be collected by force, if necessary. Government might, of course, be supported by voluntary contributions, as in the case of a club, a church or a charitable society; but many people would refuse to contribute their proper share, others would not contribute at all, and sufficient revenue could not be raised in this way.

Rents and Feudal Dues.—In early times, when governments rendered but little public service, taxation was practically unknown. During the Middle Ages in Europe, the kings and barons got most of their revenue from rents and feudal dues, or payments made by tenants to lords and overlords. These revenues, together with certain fees, fines, tolls and income from private estates, were usually sufficient for ordinary expenses in time of peace; in time of war the king called on the lords and they on their tenants for contributions of men, arms and supplies, and thus the feudal army was raised and equipped.

Origin of Taxation.—As the countries grew in population, wealth and civilization, and as the power of kings and princes increased, more was expected of them in maintaining order, security and justice and in promoting the general welfare. Therefore, their expenses also increased, and they had to ask for special contributions which, later, becoming customary, developed into regular, compulsory taxation.

Early Taxes.—For example, in Anglo-Saxon England a sort of tribute called *Danegeld* was levied and paid to the Danes to keep them from raiding the coast, and long after the Danes had ceased their marauding, the tax was collected by the English kings. *Ship-geld*, too, which the sea-coast towns were allowed to contribute instead of ships for defense, continued to be levied now and then from Anglo-Saxon times until the reign of Charles I, and his attempt to collect it from inland towns for other than naval purposes was one of the causes of the parliamentary rebellion which cost the king his life.

Benevolences.—Another early tax was *scutage*, or shield money, paid by tenants instead of military service, and used by kings to maintain a standing army. Still another was the *benevolence*, a contribution requested of the rich, which they did not dare to refuse. As Sir Thomas More wittily said, “the name benevolence had signified that every man should pay not what he himself of his good will list to grant, but what the King of his good will list to take.”

A similar grim joke was made by Cardinal Morton, Chancellor to Henry VII, when he applied “Morton’s Fork” to the rich men of his day. If they were living well, he expected, of course, a liberal “benevolence”, and if they were miserly in their expenditure, he expected the same or more, as they must be saving money. So they could choose either prong of the fork, or horn of the dilemma, for in either case they had to pay their money.

Dislike of Taxation.—The kings played such tricks as these largely because of the long-standing dislike of taxation on the part of the English people, and the difficulty of persuading Parliament to grant them sufficient revenue. As early as 1215, when the barons forced King John to sign Magna Carta, they made him promise that “no scutage or aid shall be imposed in our kingdom save by the common council of

our kingdom." This promise was renewed from time to time and as often broken; but after a long struggle, Parliament got control of the public purse and "taxation by representation" was established as the basic principle of the British constitution.

Taxation has played a great part in American history also. It was the occasion for innumerable disputes between the colonists and the royal governors, and was one of the chief causes of the Revolution. The protective tariff, too, was a source of much trouble between the northern and southern states, as the southerners held that it was imposed chiefly for the benefit of northern manufacturers. This was, in fact, one of the causes of the Civil War.

Still a Burning Question.—Nor is the question of taxation of less importance at the present day—witness the discussion about the tariff, the income tax, the excess profits tax, the burden of public debts, and the frequent protests from all classes against excessive taxation. Yet, as public service increases, public revenues also must increase, and the prospect of any permanent reduction of taxation is very slight indeed.

Other Sources of Revenue.—Taxation is the chief, but not the only source of public revenue, which may be derived from public lands, public industries, gifts, fees, fines, special assessments, or from public borrowing. In the early part of the nineteenth century the United States government got considerable revenue from the sale of public lands; but since the passing of the Homestead Act, in 1862, the revenue from this source has been very small. In the year ending June 30, 1914, the federal revenue from the sale of public lands was only \$2,571,775, and from land fees \$1,655,498.

Municipalities collect a considerable revenue through special assessments on land owners for paving, parks, sewers and other improvements, which are supposed to increase the value

of the property assessed; but the money thus obtained is not available for general purposes.

Public Debts.—Taxation usually provides sufficient revenue for ordinary public needs in time of peace, but extraordinary expenditure, as for public buildings or the carrying on of war, usually involves public borrowing and public debts. Local taxing bodies often raise bonds for school buildings, roads, bridges and other permanent improvements, on the theory that, as the benefits are enjoyed over a series of years, the burdens also should be similarly distributed. In 1921, Boston had a net debt, in round numbers, of \$80,000,000; Chicago, \$88,000,000, Philadelphia, \$149,000,000, New York City, \$1,000,000,000. Before the war, in 1913, the total indebtedness of cities, villages, towns, school districts and all other minor divisions of the United States was \$3,500,000,000, or three times the national debt, which was about \$1,000,000,000. However, the war soon made the national debt many times larger than all the state and local debts combined.

War Loans and Taxation.—The expenses of a great war might, possibly, be paid out of taxes; but it would involve a terrific burden, which the taxpayers, as a whole, could hardly stand. So wars are always financed by loans as well as taxes. Loans are voluntary, and those only contribute who have funds to spare or whose credit is good. Taxes are compulsory and, if very heavy, are sure to be levied on some who cannot find the money without serious liquidation and loss. And yet, it is doubtless well to raise as much as possible by taxation, in order to avoid the extravagance and inflation that come with excessive borrowing.

National Debts.—In 1866, after the Civil War, the gross national debt of the United States was \$2,773,000,000, or about \$92 per head of the population. In 1915, the gross debt was \$1,374,000,000, and, as the population had increased from

about 30,000,000 to 100,000,000, the debt per head in 1915 was less than \$14. The net debt was even less than that—about \$10 per head—after deducting cash in the Treasury. At that time the debts of most European countries were far greater than ours, the debt of Great Britain being about \$80 and that of France \$165 per head.

The War Debts.—Then came the Great War, involving heavy taxation in most of the warring countries, and enormous borrowing in all, so that, when the war was over, both victors and vanquished were staggering under a tremendous load of debt. In 1919 the debt of France was \$30,500,000,000, or \$760 per head, that of Great Britain, \$37,600,000,000, or \$817 per head, Germany, \$40,000,000,000, or \$600 per head; Russia, \$54,000,000,000, or \$300 per head of the former population; the United States, \$26,000,000,000, or about \$250 per head.

Fortunately for these countries, most of their debts are owed to their own citizens and can be paid by taking money out of one pocket and putting it into the other. However, the burden is none the less real, because it represents tremendous losses during the war, which can only be made up by hard work and great frugality, coupled with heavy taxation, for years to come.

Normal Taxation.—In ordinary times, of course, public revenue is derived chiefly from taxation, and borrowing is the exception rather than the rule. In 1914, the total ordinary revenue of our federal government was \$734,000,000, of which \$292,000,000 was derived from customs duties, \$380,000,000 from internal revenue, and the rest from miscellaneous sources.

The Tariff.—Customs are duties on imported goods as fixed by the tariff, or system of rates determined by federal law. The Tariff Act of 1922, commonly called the Fordney Tariff, is a formidable list of import duties on a great variety of imports. A number of articles are on the free list; but on most

commodities, especially such as are produced in the United States, there are rather high duties.

Double Purpose of the Tariff.—Import duties are designed for two purposes: first, as a source of revenue to the Federal Government; second, as a means of protecting the domestic producer against foreign competition. These two aims conflict more or less, as the highest duties yield the most protection, but very little revenue; whereas moderate duties yield little protection and much revenue. Some domestic producers would like to have prohibitive duties, which would yield no revenue at all. Free traders, on the other hand, would have no tariff at all—no protection to domestic producers and no revenue from this source.

Excise Taxes.—"Internal revenue," before the war, was derived mostly from "excises" or taxes on the manufacture of spirits, tobacco and fermented liquor, with minor taxes on oleomargarine and playing cards. Since national prohibition went into effect in 1919, the internal revenue from liquors has been cut off, but it has been more than made up from other sources.

War Taxes.—The federal revenue from customs and excises was sufficient for ordinary purposes before 1917, but when the United States entered the war they had to be supplemented by new and heavier taxes, especially the excess and war profits taxes, and the federal income tax. Then, too, excise taxes were levied on manufacturers, producers, dealers and consumers; and there were taxes on stocks and bonds, insurance, amusements, luxuries and what not. In these various ways, the ordinary receipts of the Federal Government, which were \$734,000,000 in 1914, reached the enormous total of \$6,700,000,000 in 1920.

Excess Profits Tax.—The excess profits tax was imposed

chiefly for two reasons: first, because it was felt that business men should not profit unduly by the war, second, because, as prices rose, profits increased and could bear heavy taxation. So the law provided for the special taxation of corporations on their profits in excess of 8 per cent of their invested capital, after allowing for certain exemptions.

For example, in 1918, the excess profits of a corporation, up to 20 per cent of the invested capital, paid a tax of 30 per cent, and the profits over that were taxed at 65 per cent. Then, too, there was the corporation income tax, imposing additional rates, so that the business corporations of the United States bore their share of the war burden, and in some cases were so heavily taxed that they could not set aside proper surpluses against the time of falling prices. Naturally, these taxes yielded a large revenue before the crisis of 1920, but since then the revenue has greatly fallen off, as profits have been much reduced, and in many cases have altogether disappeared.

Federal Income Tax.—The federal income tax has been more satisfactory, although the tremendous supertaxes on large incomes have caused many rich people to invest in government bonds and other tax-free securities, have discouraged business enterprise, and put a premium upon deceit and evasion. The normal rates on individual incomes for 1918, after allowing for deductions, were 6 per cent on incomes between \$2,000 and \$5,000; 20 per cent between \$18,000 and \$20,000, 40 per cent between \$50,000 and \$60,000; and 77 per cent on incomes over a million. As a war measure, however, the federal income tax was productive of large revenue, and, in a modified form, it is likely to be an important source of federal income in future years.

Tax-Exempt Securities.—But if this form of taxation is to continue it will be necessary to do away with the exemption

from taxation of government, state and municipal bonds. Although these securities usually yield a low rate of interest—from three to six per cent—they have been in great demand in recent years, because of the exemption. Many people, especially the rich, have been selling industrial stocks and bonds and investing in tax-exempt securities. Thus they have escaped taxation to a large extent, while railway companies, manufacturers and other business men have found it hard to get money. Then, too, many municipalities, finding it easy to borrow at low rates of interest, have plunged into extravagance and debt, instead of paying their way out of their regular income.

The General Property Tax.—The income of the states and local governing bodies is chiefly derived from the general property tax. In 1917, the states derived 55 per cent of their revenue from property taxes, 22 per cent from licenses, 12 per cent from fees and other departmental earnings, and the rest from minor sources. The municipalities derive a still larger proportion of their revenue from property taxes. In 1920, the total taxes of New York City were, in round numbers, \$210,000,000, of which \$195,000,000 was derived from taxes on lands and buildings, \$5,000,000 from real estate of corporations, \$6,300,000 from special franchise taxes, and \$3,600,000 from the personal property tax.

Theory of the Tax.—The general property tax is very simple in theory and practice—far too simple, in fact, for the complicated conditions of modern life. All private property, real and personal, within a given state is supposed to be listed by assessors or other officials, after which certain rates or percentages are levied for state and local purposes. The taxes are collected in due course, or else the property may be sold for default of payment.

Valuation and Assessment.—Almost any tax receipt will

indicate this process of valuation, assessment and collection. For example, a tax receipt issued by the Treasurer of Lancaster County, Nebraska, shows that the assessors valued a certain house and lot for the year 1922 at \$9,000 and the owner's personal property at \$1,000, making a total valuation of \$10,000 of taxable property. Upon this valuation the following taxes or rates were levied the state levy, 23 mills; the county levy, 164 mills; the sanitary district levy, 1 mill; the school district levy, 122 mills; the special school building levy, 1.06 mills, and the City of Lincoln levy, 675 mills. Adding all of these levies, we have a total of 24.95 mills or 2.495 per cent on the total valuation.

Translating these levies into actual amounts, we find that the taxpayer had to pay, on his \$10,000 valuation, \$23 for state purposes, \$16.40 for the county, \$10 for the sanitary district, \$122 for schools, \$10.60 for school buildings, and \$67.50 for the City of Lincoln, making \$249.50 in all. This tax of practically 25 per cent on the valuation may seem rather high, but when we remember that the house and lot are probably worth at least \$12,000, and that the owner's personal property may be worth \$5,000 or even \$10,000, the total taxes do not seem excessive.

Defects of the General Property Tax.—Still, the general property tax is not altogether satisfactory. In the first place, a large house belonging to a rich man is apt to be valued at, say, 50 per cent of its market value; while a poor man's cottage may be valued at 75 or 80 per cent, because it commands a good price at a forced sale.

Invisible and Personal Property.—Secondly, there is no good way of discovering all of the taxpayer's personal property. Cattle, machinery, stock in trade, furniture and other tangible and visible property may easily be found and valued; but the assessor cannot tell, without asking the taxpayer, what

stocks and bonds, notes and credits and other intangible, in visible property he may have. In fact, the assessor does not even know what silverware there may be in the house, nor what jewels the taxpayer's wife may own.

Hard to Find.—In former times, when most property was tangible and visible, and everybody's business affairs were well known to the neighbors, the assessor could make a fairly accurate guess as to a person's property, and wealth was a fairly good measure of his ability to pay. But nowadays, when so much wealth is invisible and intangible, the assessor must let every man assess himself, and this, as is well known, puts a premium on dishonesty. Many a taxpayer is like a certain Scotchman—or was it a Yankee?—who would not tell a lie for five cents, but would tell twenty lies for one dollar.

Taxpaying Ability.—Thirdly, the theory of the general property tax assumes that a man's ability to pay taxes is measured by his property or accumulated wealth; whereas, there are many men receiving large salaries and saving little, who are far better able to pay than poor people who have, by hard work and great economy, accumulated a little property. In other words, taxpaying ability is better measured by income than by property; although, perhaps, income from property should pay a higher rate than income from service, as it is more permanent.

Taxation of Property and Income.—Thus, in a certain town, a widow with an income of \$1,000 from real estate might be taxed on a valuation of \$10,000, and her state and local taxes might amount to \$200, or 20 per cent of her small income. At the same time and place, there might be a physician or lawyer with an income of \$10,000, whose taxes were no more than \$200 because he was living up to his income and had accumulated very little property. However, if the latter were to die, his family might be left penniless; whereas

the widow, at her death, could leave considerable property to her children. Such an illustration gives an argument for the property tax supplemented by a progressive income tax.

Shifting of Taxes.—Fourthly—and this applies to many other taxes—the person who pays a property tax is not always the one who bears it, as he may shift the burden to other shoulders. A tax on a house, apart from the lot, is paid and borne by the owner, if he occupies the house, but if he is a landlord, he will try to shift the tax to his tenant in the form of higher rent. Similarly, taxes on farm buildings, machinery, cattle, merchandise, and other reproducible goods tend to be shifted to the consumers in the form of higher prices, because they are expenses of business and, if they fell on the producers, would reduce the supply of goods.

Unshiftable Taxes.—Taxes on land values, on the other hand, can seldom, if ever, be shifted, as they do not diminish the supply of land nor increase the demand for it, and therefore do not increase its price. Nor can a landowner, when a new tax is imposed, shift it to a tenant in the form of higher rent, if he is already charging all that the land is worth. The tax makes no change in the supply or the demand for agricultural produce or for land, and, therefore, does not increase the tenant's ability to pay a higher rent.

Direct and Indirect Taxes.—From this point of view, taxes are of two kinds—direct and indirect. Direct taxes are those which are borne by the persons who pay them, indirect taxes are those which are paid by one set of persons, but later shifted, in whole or in part, to others. Among the most familiar direct taxes are poll taxes, income taxes, inheritance taxes, and taxes on land rents and net profits. Among indirect taxes, the most notable are customs and excise taxes; although, as already noted, much of the general property tax may be shifted.

Marking Up of Goods.—Many business men, before the

crisis of 1920, thought they were shifting the excess profits tax and even their income taxes, because they were marking up their goods as fast as their taxes increased, and even faster. But that was because prices were rising, and, if there had been no excess profits or income taxes, they could have marked up their goods just the same. But when, after the crisis of 1920, prices began to fall, they soon discovered that such taxes could not be shifted to any great extent. Unquestionably, business profits would have been far higher before 1920 if there had been no excess profits and income taxes. However, in so far as these taxes discouraged business, they tended to limit production and increase prices. To that extent, therefore, they may have been shifted to the consumer.

Making the Foreigner Pay Our Taxes.—Nobody denies that customs and excise duties are shifted to the consumers, although there are those who think a protective tariff desirable because it makes the foreigner pay our taxes. It is possible that a new and higher tariff might force the foreign manufacturer to cut his prices somewhat, in order to keep our trade, but ordinarily he could not stand much of that, unless he were producing at a very high profit. A high tariff tends to keep foreign goods out of the country, unless the American consumer can stand the tax.

How Taxes Are Shifted.—Certainly, the importer who pays the tax bill will not continue to do so unless he can sell the goods to wholesalers and retailers at so much more than formerly, and the retailers will not handle the goods unless they can collect from their customers. For example, if an importer buys gloves in Paris at \$1.00 a pair and the duty is 50 per cent, he must sell them to the retailer at \$1.50, plus freight, cost of handling and his own profit. Then, by the time the retailer has allowed for all his costs and a reasonable profit, it is quite likely that the final consumer will pay from \$2.00 to

\$3.00 for gloves which in Paris would retail at \$1.25 or \$1.50.

Shifting Forward and Backward.—So also with excise duties on tobacco and other domestic manufactures. The Virginian tobacco grower must have a sufficient price for the leaf, else he will grow some other crop; the manufacturer must have his costs and his profits, else he cannot remain in the business, and so all along the line from grower to consumer. The manufacturer, being required to pay the duty, must pass it on to the retailer, who, in turn, passes it on to his customers. If now, the tax be considerably increased, some of it may be shifted back to the grower and some borne by the manufacturer and retailer, but most of it is likely to fall on the final consumer. If all excise taxes on tobacco were taken off, prices of cigars and other tobacco products would be far lower than they are to-day and the prices of leaf tobacco would be somewhat higher.

Who Pays for Protection?—There is nothing particularly undesirable about the shifting of taxes to the consumers, as all people are consumers, and it is not unreasonable that they should pay taxes in proportion to their expenditure. However, in the case of import duties, they are objectionable in that they enable the domestic producer to increase his prices. The consumer of imported gloves pays his tax to the government, as he should, but the consumer of American-made gloves pays a sort of subsidy to the domestic manufacturer in the form of higher prices, from which the government gets nothing. The latter payment is, in effect, a bonus to the domestic manufacturer, and it is a question whether he gives value for value received.

Another objection that is often made against indirect taxes is that the consumers do not know that they are paying them, and, therefore, do not feel concerned about economy in governmental expenditure. On the other hand, some say that

this is an advantage, on the ground that, as a witty Frenchman once said, the art of taxation is like plucking a goose so as to get the greatest amount of feathers with the least amount of squawking.

Henry George and the Single Tax.—Evidently, our system of taxation, both state and national, is far from perfect; but that is not to say that it calls for sudden or radical change. Single taxers of the school of Henry George would abolish all taxes except a single tax on the value of land equal to the whole economic rent. If all taxes were thus put upon land values, they would, of course, absorb the whole rental value and, therefore, the whole capital value, thus confiscating all land and making the state the sole landlord. Apart from the injustice and impracticability of this, whether done at once or gradually, it is highly probable that public ownership of land would not be socially beneficial, as it would interfere seriously with the improvement of land, with the foundations of our credit system, and with the growth of business. Besides, under this system many people of large income would escape taxation altogether.

A State Income Tax.—A more reasonable and practicable change, for state and local purposes, would be to abolish the taxation of invisible, intangible personal property, and to replace it by a progressive income tax, supplemented by progressive inheritance taxes. Such a state income tax was introduced in Wisconsin in 1911. For single persons there is an exemption of \$800, for married persons, \$1,200, with an exemption of \$200 for each dependent child. After allowing for the exemptions, the first taxable \$1,000 is taxed at 1 per cent, and the rate rises to 5 per cent on amounts over \$12,000.

Inheritance Tax.—The federal inheritance tax of 1919 is similarly progressive, though at far higher rates. After allowing for liberal exemptions, the rate of tax on the net estate

up to \$50,000 is 1 per cent, \$50,000 to \$150,000, 2 per cent; \$150,000 to \$250,000, 3 per cent, \$1,000,000 to \$1,500,000, 10 per cent; \$8,000,000 to \$10,000,000, 25 per cent.

Progressive Taxation.—Income and inheritance taxes, both state and federal, are usually progressive, in that higher rates are imposed on large than on small incomes and estates. This is done because it is felt that people should contribute to public revenue according to their ability, rather than according to the benefits which they receive from public expenditures. While it may be fair to discriminate in this way up to a certain point, it is easy to go too far in taxing one set of people for the benefit of another, and it is not easy to draw the line between taxation and confiscation.

Power to Tax Gives Power to Destroy.—There are those who would use the taxing power of both state and federal government for the purpose of correcting the inequalities of wealth by breaking up great fortunes during the lifetime of the owners, or after their death. This, as a proposal for the redistribution of wealth, rather than taxation for public revenue, is beyond the scope of the present chapter. Yet it might be well to remember in this connection that, as Chief Justice Marshall said, "the power to tax is the power to destroy," and that, in the process of confiscation, the people might be killing the goose that laid the golden eggs.

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QUESTIONS AND TOPICS

- 1 Could public revenue be raised by voluntary contributions?
- 2 Why do people dislike to pay taxes?
- 3 Show the relation between taxation and representation
- 4 Show the relation between the control of the public purse and popular liberty
- 5 Show the relation of taxation to the American Revolution
- 6 Do the British dominions pay taxes to Great Britain?
- 7 What are fees, fines, and special assessments?
- 8 What is the justification of special assessments?
- 9 Should taxes be paid according to benefits received, or according to ability?
- 10 Could the war have been carried on without incurring public debts?
- 11 Show how people evade taxation by buying public bonds
- 12 Should public securities be exempt from taxation?
- 13 What are customs and excise taxes?
- 14 What are specific and *ad valorem* duties?
- 15 Show how a small specific tax may be a high tax *ad valorem*.
16. Were the federal income tax and the excess profits tax necessary?
17. Did business men make their customers pay their taxes?
- 18 What is the general property tax?
- 19 How are state and local taxes assessed and collected?
- 20 How are federal taxes assessed and collected?
21. Show the difficulty of discovering invisible personal property
22. How can it be found and taxed?
- 23 What are direct and indirect taxes?
24. Give arguments for and against progressive income and inheritance taxes

CHAPTER XXII

THE DISTRIBUTION OF WEALTH AND INCOME

Inequality.—One of the most striking features of our economic life is the inequality that prevails in the distribution or division of wealth and income, whether between groups of people or between individuals within these groups. Among the lowest savages there is practically no wealth, as all are equal in poverty; but among civilized peoples inequality is the rule, although income is more evenly distributed than wealth or property, and the poorest workman of our day has more of the necessities and comforts of life than the richest savage.

Wealth and Income Defined.—Wealth, it may be said, in passing, is a stock or fund of accumulated goods—land, buildings, cattle, machinery, household furniture, merchandise and the like—while income is the yearly, monthly or daily flow of services or benefits which we receive from persons and things. Measured in terms of money, wealth is the value of all our material possessions or property; income is the value of the goods and services that come to us or that we receive in a given time. Gross income is the total value received; net income is gross income less the expenses of doing business. Individual wealth and income are what particular persons own and receive; the national wealth and income are the sum of individual wealth and incomes, less what we owe to foreigners, plus what foreigners owe to us.

Wealth of Various Countries.—The various countries of the world vary greatly in regard to both wealth and income, because of wide differences in natural resources and in the character and customs of the people. Before the World War (1914), the total wealth of the United States was estimated, roughly, at \$204,000,000,000; that of Germany, \$80,000,000,000, the United Kingdom, \$70,000,000,000; France, \$58,000,000,000; Russia, \$58,000,000,000, Italy, \$22,000,000,000, Japan, \$11,000,000,000, Argentina, \$11,000,000,000, Canada, \$11,000,000,000, Australia, \$7,000,000,000.

Wealth Per Capita.—Dividing these figures by the population of the several countries, we find that the wealth per head of the United States was about \$2,000, while Argentina came second with \$1,600, then the United Kingdom and Australia, \$1,500 each; France and Canada, \$1,400 each, Italy, \$600, Russia, \$400; Japan, \$200. If we allow for the fact that, in 1914, some of the newer countries were in debt to the United Kingdom, France and other European countries, the wealth of the former should be somewhat less and that of the latter somewhat more than the figures indicate. However, since the war, the United States has become a creditor nation, and her wealth is relatively greater and that of Europe less than it was in 1914.

Increase in Wealth of the United States.—As the United States is a new country, with vast undeveloped resources, inhabited by capable, energetic people, it has increased rapidly in total and per capita wealth. In the year 1850 our total wealth was estimated at \$7,000,000,000, and our per capita wealth at \$300; in 1870 the total wealth was \$30,000,000,000, and the per capita wealth \$700; in 1914 the former was \$200,000,000,000 and the latter \$2,000; and finally, in 1920, our total wealth was estimated at \$290,000,000,000 and our wealth per head at \$2,700.

The Purchasing Power of the Dollar.—These figures, however, are misleading, unless we remember that the value of the dollar has changed greatly from time to time. For example, the purchasing power of the dollar in 1914 was about the same as in 1850, so that the figures for these years are fairly comparable, but the dollar of 1870, when prices were abnormally high, could buy no more than 65 cents did in 1850, while the dollar of 1920 was really a 50-cent dollar as compared with its value in 1850 or 1914. In other words, the money value of our wealth has increased enormously since the year 1914, because of monetary inflation, although the quantity and quality of our land, buildings, cattle and other goods have not increased to any such extent.

Wealth of Our States.—Similar figures indicate, roughly, the total and per capita wealth of the various states of the Union. New York state has the greatest total wealth, estimated at \$14,700,000,000 in the year 1912, and Nevada the least, \$220,000,000; although the per capita wealth of New York was \$2,600, and that of Nevada, \$5,000. Evidently, these figures overestimate the per capita wealth of Nevada and underestimate that of New York, as many of the mines of Nevada are owned by eastern capitalists, and the same is true, in a less extent, of other western states.

Apart from that, the figures indicate pretty well the relative wealth of the several states. Thus, the wealth per capita of Massachusetts was estimated at \$1,800; Pennsylvania, \$1,900, Ohio, \$1,800; Illinois, \$2,600; Wisconsin, \$1,800; Iowa, \$3,500; Nebraska, \$3,100; Virginia, \$1,000; North Carolina, \$800; Alabama, \$900; Oklahoma, \$2,400; Texas, \$1,600; Colorado, \$2,700; California, \$3,200.

Wealth of Individuals.—These figures tell us nothing about the way in which the wealth of the several states is divided among the individual citizens. For example, the wealth

per head of Wisconsin, in the year 1912, was estimated at \$1,800, but that does not mean that every citizen—man, woman and child—owned as much as that. On the contrary, according to the estimates of Dr. W. I. King, the richest 2 per cent of the people of Wisconsin, in the year 1910, owned 57 per cent of the total wealth; a middle class of 33 per cent of the people owned 38 per cent of the wealth; and the poorest 65 per cent of the people owned but 5 per cent of the total wealth.

Inequality in Other Countries.—Apparently, these figures are fairly typical of the United States, for similar estimates for Massachusetts do not differ widely from those of Wisconsin. British, French and German figures give like results, and show that wealth is even more highly concentrated in those older countries. However, it is not correct to say, as some do, that “the rich are growing richer and the poor poorer.” The truth is that the rich are growing richer and the poor are becoming less poor, although they do not or cannot accumulate much wealth.

Distribution of Income.—Fortunately, income is more evenly distributed than wealth, which one might expect, considering the fact that even the poorest wage earners have some income, though they may have practically no property. Dr. King estimates that, in the year 1910, the total income of the people of the United States was about \$30,000,000,000, of which wages and salaries amounted to \$14,300,000,000, or 47 per cent of the whole, while interest was \$5,000,000,000, or 16 per cent; rent, \$2,600,000,000, or 8 per cent; and business profits, \$8,400,000,000, or 27 per cent.

The Share of Labor.—It is encouraging to note that the share of the national income going to employees in wages and salaries seems to be increasing. In the year 1850, according to

Dr. King, it was but 36 per cent of the whole, but in 1910 it was 47 per cent.

It should be remembered, too, that the 47 per cent here indicated is not the whole share of labor, for "business profits" include the net earnings of farmers, merchants and manufacturers, many of whom are hard-working small producers, whose so-called "profits" are the reward of their labor. If, then, we assume that at least half of "business profits" are of this character, we may guess that the share of labor in the national income in 1910 was 60 per cent or more. It is interesting to compare this estimate with that of Professor A. L. Bowley and Mr. Hugh Dalton for the United Kingdom in the year 1911. Mr. Dalton says: "The relative share of work was at the most 71 per cent and the relative share of property at least 29 per cent."

Shares of Labor and Property.—More recent statistics of income in the United States, compiled by the National Bureau of Economic Research, confirm the earlier results of Dr. King, but assign a larger share to labor. The national income for 1913 is estimated at \$33,000,000,000 and the share of employees, in wages and salaries, at 55.6 per cent, leaving 44.4 per cent as the share of "management and capital." If to this 55 per cent be added the "labor income" of farmers, manufacturers, merchants and other independent producers, it may well be that the total share of labor is over 65 per cent and the share of property less than 35 per cent.

Profits Largely Earned.—In fact, if we agree with many economists in saying that profits are, in the main, earned by business men for service rendered, the share of property as such, including chiefly rent and interest, must be much less than 35 per cent of the national income.

Share of Labor in Various Industries.—In certain industries the percentage of net income paid to employees is sur-

prisingly large. President Friday, in his recent book, *Profits, Wages and Prices* (1920), has shown that the employees of mining, manufacturing, railways and public utility corporations, in the year 1913, received 64 per cent of the "value added" by these industries to the raw material, while about 4 per cent went in taxes, 9 per cent in interest, and 23 per cent in dividends and surplus—the surplus being corporate savings.

The National Bureau of Economic Research found that in the year 1913, the share of the employees in the production of minerals was 73 per cent, in factories, 74 per cent, hand trades, 66 per cent, agriculture, 13 per cent, railways, 66 per cent; transportation by water, 79 per cent. The low percentage received by employees in agriculture is due to the fact that farmers, as a class, do most of their own work.

British Figures.—Professor Bowley's statistics for the United Kingdom are very similar to these. Before the war, the proportion of the annual net product going to wages and salaries in the railways was 48 per cent, in coal mining, 78 per cent; iron and steel production, 81 per cent; shipbuilding, 83 per cent, cotton manufacture, 70 per cent, woollen manufacture, 68 per cent, boots and shoes, 84 per cent, brewing and malting, 25 per cent, building and contracting, 85 per cent.

Error of Socialists.—Socialists often say that for every dollar paid to labor, two or three dollars go to capital. But in the United States and Great Britain, the most highly developed capitalistic countries in the world, the proportion is quite the reverse of this, since, for every dollar received by capital, two or three dollars go to labor.

Functional and Personal Distribution.—Here we have been considering the "functional" distribution of income: that is, distribution of the joint product of industry between labor and property, according to the functions or activities performed by each. When, however, we come to the "personal" distribu-

tion of income, we find that it is far from equal, though less unequal than the distribution of wealth. This is due to the fact that laborers of every class are far more numerous than employers and capitalists; so that, although the total share of employed labor is far greater than that of management and property, the average incomes of employees is far less than that of the more wealthy employers and capitalists

Inequality of Incomes.—In the year 1910, according to the estimate of Dr King, the richest 2 per cent of the people of the United States received 20 per cent of the total income, and had an income per head of \$3,386, or about \$17,000 per family of five. Then there was a large middle class of 33 per cent of the people, who received 41 per cent of the total income. Finally, the poorest 65 per cent of the people received only 38 per cent of the total income, and their income per head was \$197, or \$985 per family of five.

The figures of the National Bureau of Economic Research show that, in the year 1913, the most prosperous 5 per cent of the income receivers had 33 per cent of the total income. In the year 1919, however, the same fraction of income receivers had only 28 per cent of the total incomes, which seems to show that the war caused a greater diffusion rather than concentration of wealth.

European Incomes.—Statisticians have found a very similar distribution of incomes in other countries. Sir Leo Chiozza Money stated that, before the war, the richest 3 per cent of the people of the United Kingdom received more than a third of the total income. Prussian figures for 1910 show that the richest 2 per cent of the people of Prussia had 24 per cent and the poorest 65 per cent had 36 per cent of the total income. European incomes are far less than those of the United States. For example, the "upper middle class" of Prussia, in 1910, had a per capita income of only \$200—about the same

as that of the poorest 65 per cent in the United States. Of course, the cost of living was somewhat lower in Prussia than in the United States.

Poverty.—As to the extent of poverty in the United States, there are no reliable figures. Robert Hunter, writing in the year 1904, estimated that no less than 10,000,000 persons in this country were in poverty, of whom about 4,000,000 were paupers, dependent on some form of public relief. It is generally thought that Hunter's figures were too high. He defined poverty as a condition in which people had not "a sanitary dwelling, and sufficient food and clothing to keep the body in working order."

Poverty is far more extensive and distressing in Europe than in the United States. Mr. Bowley estimates that before the war more than 13 per cent of the industrial working class of the United Kingdom were below the standard of income sufficient to keep workers efficient and their dependents nourished. Certainly, there is a vast amount of poverty in both Europe and America, and in Asiatic countries the extent of it is appalling.

Causes of Poverty.—The question of poverty, as the condition of those lowest in the economic scale, is part and parcel of the broader question of inequality in wealth and income, which may be traced to two main causes: first, the native inequality of man; and, second, the circumstances of his environment which tend to increase or diminish the original inequality.

Native Inequality.—In the first place, then, people are born with unequal powers of mind and body which, in any sort of struggle, whether war or work or play, must lead to unequal results. Moreover, among any considerable number of people—say, a thousand children in the primary schools—there is found a rather regular gradation of physical and

mental ability, from defectives at the bottom to fine specimens of human perfection at the top. Nor is the average any too high, considering the severe requirements of modern life, and those much below the average are in danger of sinking to the bottom of the social-economic scale

Rough Equality Among Primitive Men.—Among our savage and barbarian ancestors, such unfortunate weaklings, unable to contend with the stern conditions of existence, must have been destroyed at an early age, thus causing a rough equality among the survivors, but in our day of peace, prosperity and humanitarianism, many defectives survive and marry and have children as incompetent and helpless as themselves.

Qualities Necessary to Material Success.—It is comparatively easy to make a living nowadays, yet many personal qualities are necessary for one who would achieve any considerable success in the business world. A young man entering any trade or profession should have good health and more than average intelligence, he should be alert, industrious, frugal, prudent, honest, courageous and determined; and he should have no vices whatever. Obviously, such men are uncommon, while many others have such serious defects that they cannot take care of themselves, much less provide for a family and lay up savings for a rainy day.

Effects of Chance.—Then, too, there is a large element of chance in human life, helping or hindering people, regardless of their merit or demerit. Unemployment, sickness, accident and death are frequent causes of failure and poverty; although the effects of such calamities may be overcome, to a greater or less extent, by those who have all the personal qualities that make for material success. In other words, the strong and capable usually have fortune on their side, while the weak and incapable have the dice loaded against them.

Importance of Thrift.—Of all the personal qualities that contribute to the accumulation of wealth, none is more important than the power and the will to save. The power to save comes from earning capacity; the will to save is the determination to keep one's expenditure well below one's income. But, as everybody knows, most people of small and moderate incomes save practically nothing, and, therefore, they have no property.

Possibility of Saving.—True, it is almost impossible for an unskilled worker with a family of young children to save anything without depriving his family of the necessities of life; yet there are many other workers who could, if they would, save a little every year. But frugality demands sacrifice of present enjoyment, and there are relatively few who have the courage and determination to practise it. In this respect the immigrant, accustomed to a lower standard of living, often beats the native born, accumulating property while the American worker is living from hand to mouth.

Temptation to Spend.—Skilled laborers, farmers, shopkeepers, professional people and other persons of moderate incomes could, if they would, save a great deal, and many do so; but many more fail to save because they cannot resist the temptation to spend. They or their families, wanting more and more of the good things of life—better food, clothing and shelter, better furniture, a piano, a phonograph, an automobile, concerts, theaters and all that—buy one of these things after another, until they find it impossible to save anything and increasingly difficult to meet their bills.

So powerful is the temptation to spend, whether for the pleasure of consuming or the satisfaction of being like one's neighbors, that people of moderate incomes seem to save far less than formerly, and most of the saving is done by great

corporations and by the rich, whose incomes are so large that it is almost easier for them to save than to spend.

Inheritance of Property.—The natural inequality of human beings, then, seems to be the chief cause of inequality in wealth and income; but a close second is the law of inheritance which permits people to hand down their wealth from generation to generation. A young man of great ability may accumulate a fortune in the course of time, but he is seriously handicapped, at the outset, as compared with a man of equal ability who has inherited wealth and a large connection of influential friends.

Shirt Sleeves to Shirt Sleeves.—A man of very moderate ability, inheriting a large fortune, can easily augment the principal within his lifetime and transmit a still greater fortune to his heirs. Thus, the old saying that it is but three generations from shirt sleeves to shirt sleeves is far from the truth. In fact, there are many wealthy American families who have maintained their position for several generations, and few of their members are falling into poverty. However, there is a tendency for great fortunes to be divided, if not dissipated, while new people play the leading rôle on the stage of business.

The Economic Ladder.—We may, therefore, think of the business world as a sort of pyramid or Jacob's ladder, on which people are continually ascending, with a few descending. The lower stages are crowded with people of small income and little property, and the higher stages are more thinly occupied by people of large income and much property. Naturally, those on the lower stages are more or less jealous of those above, exaggerating their faults and minimizing their virtues and, frequently, desiring to bring them down to the common level.

Possibility of Improvement.—In view of such stratification, the question arises whether anything can be done to

reduce the inequality, which seems to flaunt all our ideals of justice and democracy. This is a large and most difficult question, but it seems to resolve itself into two parts. first, whether anything can be done to reduce the native inequality of man; second, whether it is possible to remove artificial barriers, so that there may be at least equality of opportunity between man and man

Eugenics.—The first question is biological rather than economic, and may be referred to those who favor some system of eugenics for the improvement of the human race. Whether any of their positive suggestions are practicable or not, may be doubted, but their negative suggestion, to the effect that the defective classes should not be allowed to reproduce their kind, is deserving of the most serious consideration.

In answer to the second question, much has already been done by way of removing the disabilities of the poor and giving large opportunity to people of every class.

Equality of Opportunity.—Public education has given millions of children a valuable preparation for their life work, such as their parents could not have provided at their own expense. Doubtless still more can be done in this direction through the development of vocational training, which tends to increase the total product of industry and to equalize individual wealth and income.

Insurance.—Insurance, public and private, has done much to prevent poverty and to equalize losses, by encouraging the accumulation of small savings, and providing compensation in case of fire, accident, disease, unemployment, old age and death. Many countries have passed laws providing for such benefits, and many employees have, voluntarily, done the same. If carried far enough, insurance can make some provision for indemnity against all hazards of life, although there may be question as to the proper distribution of the burden be-

tween the individual directly benefited and the taxpayer.

Forces Making for Diffusion of Wealth.—There are still other forces tending toward the equalization of wealth and income. Such are laws for the prevention or the control of monopoly, restriction of immigration, activity of labor unions, welfare work by employers, the cooperative movement, the growth of savings banks and investment companies, scientific charity, the study of domestic economy, public condemnation of extravagance and a growing spirit of helpfulness among all classes.

Taxation or Confiscation.—Finally, in case the forces tending toward the diffusion of wealth and income are found to be inadequate, it is likely that there will be a growing demand for progressive income and inheritance taxes, not merely for the equalizing of opportunity, but for the payment of dividends, bonuses or doles to the less prosperous citizens at the expense of the wealthy.

Dangers.—Here, evidently, we are in dangerous ground, for, when the propertyless get a taste of confiscated wealth, there is no telling how voracious they will be. On the side of the poor, such easily gotten income would probably encourage idleness and extravagance, on the side of the rich, it might seriously discourage saving and investment and thus strike at the tap root of the economic system by which all classes get their living.

Total Savings of the United States.—Many people seem to think that the rich consume practically all of their income in extravagant living, but such is not the case. The National Bureau of Economic Research estimates that corporate savings alone in the year 1916 amounted to \$4,000,000,000. President Friday estimates that, in the year 1922, the total savings of the United States were not less than \$10,000,000,000. Some of this, no doubt, was saved by wage earners and other people of small and moderate incomes, but most of it by wealthy individuals and corporations.

Revolving Fund.—Thus, a large part of the national income is put back into business, creating a sort of revolving and ever-growing fund, from which labor draws the larger share and without which the wheels of industry could not move. If, now, by means of heavy income and inheritance taxes, the wealth of the rich were taken from them and given to the poor, and most of it were spent, the revolving fund would be diminished, and the poor would lose in wages more than they had gained in bonuses and doles.

Diffusion of Wealth Desirable.—And yet, the fact that the enormous sum of \$10,000,000,000 was saved in a year of heavy taxation shows that the effect of taxation upon saving should not be overestimated. The problem of future distribution, then, is to find ways and means of equalizing wealth without destroying the incentive to save. If this can be done, so that wealth may be widely diffused, the institution of private property may endure for centuries to come.

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QUESTIONS AND TOPICS

- 1 Give definitions of the following wealth, income, gross income, net income, individual wealth, national wealth
- 2 Why are the total and per capita wealth of the United States so large as compared with other countries?
- 3 Why has our wealth increased so much since 1850?
- 4 Why must we consider the purchasing power of the dollar in estimating our wealth?
- 5 Are the people of Nevada really much more prosperous than those of New York?
- 6 Why is wealth so unequally divided?
- 7 Are the rich growing richer and the poor poorer?
- 8 Why is income more evenly distributed than wealth?
- 9 Why do so few people save anything?
- 10 What is the share of labor in the national income as compared with the share of property?
- 11 What is the share of the employees in various industries?
- 12 Distinguish between functional and personal distribution
- 13 Why is there so much poverty in a rich country like ours?
- 14 Show the effect of inheritance upon inequality of wealth and of opportunity
- 15 Is it true that there are usually but three generations between shirt sleeves and shirt sleeves?
- 16 Do you know many poor people whose parents or grandparents were wealthy?
- 17 Do you know many rich people who were once poor? *
- 18 Is it likely that wealth and income will be more diffused in the future than in the past?
- 19 Why do we say that capital is a revolving fund? Does it grow as it revolves?

CHAPTER XXIII

ECONOMIC IMPROVEMENT

The French Maxim, "Laissez-Faire."—About the year 1680, a French merchant, Le Gendre, was a member of a deputation waiting on Colbert, finance minister to Louis XIV, to protest against excessive state control of business affairs, and in making his plea for liberty he uttered these memorable words: "*Laissez nous faire*," which, being freely translated, means: "Let *us* do things; let *us* alone; let *us* carry on business in our own way."

The Physiocrats.—Many years after this, the French economists of the eighteenth century adopted the maxim *laissez-faire*, and it became the watchword of their system of natural liberty, otherwise known as Physiocracy. Just as democracy is government by the people; plutocracy, government by the rich; and aristocracy, government by the best, or by those who think themselves the best, so Physiocracy was the theory of those who held that economic life should be wholly free from state control and governed only by the law of nature or the law of liberty.

A Protest Against Too Much Control.—The theory of *laissez-faire*, or let alone, was a protest against the then existing European system of protective duties, bounties, monopolies, regulations and restrictions which, coupled with burdensome taxation, had served to hamper industrial development, and especially to discourage agriculture and the other primary industries. This was the system of state regulation known as Mercantilism, but often called Colbertism, after its greatest French exponent.

Taxes, Tolls and Bounties.—For example, taxes in France were very high and imposed chiefly on the peasants. Then, too, there were numerous tolls levied on agricultural produce on the way to market, so that prices were very low in the country and very high in the city, to the injury of all concerned. Also, the revenue thus derived was often used to encourage less profitable industries, as when bounties were paid to the growers of mulberry trees in order to foster the silk industry, though at the expense of the growers of corn and grapes.

Colonial Policy.—Again, the colonial trade of all the European nations was more or less restricted, with the idea of making the colonies feeders to the mother countries. Such restriction of British colonial trade through the Navigation Acts was one of the chief causes of the American Revolution. Also, excessive taxation and abuse of state authority were among the chief causes of the great French Revolution of 1789. If the governments of England and France had listened to the advice of Adam Smith, Turgot and other economists and statesmen of their day, both of these revolutions might have been prevented.

The Old System Passes Away.—In these and other ways, the governments of western Europe were hampering and restricting industrial development, and the economists and business men were right in demanding a large measure of economic liberty which, after a time, they obtained. The old monopolistic trading companies, like the British East India Company, lost their charters, and foreign trade was made free to all. After the American Revolution, Great Britain changed her colonial policy, so that the great British Dominions, such as Canada and Australia, became practically independent republics. Control of wages and prices, too, was abolished; the old poor laws were repealed, also the laws against labor unions and against usury were greatly changed. About the middle of the

nineteenth century free trade was established in Great Britain, and protective tariffs were much reduced in other countries.

The Police Theory of Government.—All this was most satisfactory to the French economists and their English followers, for they distrusted the state, glorified liberty, and held that, if nature were let alone, natural laws, being the laws of God, would work out the greatest possible good to all concerned. Thus they developed the "police theory of government," according to which the state or government should keep order and security at home and abroad, promote education and public health, look after the coinage of money, the registration of marriages and births, and a few other matters; and, for the rest, "stand out of the sunshine of industry."

A conversation between the Dauphin of France and the economist Quesnay, founder of the Physiocrats, well shows the latter's point of view. The Dauphin said: "The Kingly office is hard." Quesnay replied, "I do not see it." The Dauphin: "What would you do if you were King?" Quesnay. "Nothing!" The Dauphin. "Who then would govern?" Quesnay: "The law."

The Law of Nature.—Apparently, the chief of the economic laws which the French economist had in mind was the disposition or tendency of every man to look out for his own interests or advantage, according to the rule that "self-preservation is the first law of nature." But, inasmuch as the instinct of self-preservation is of divine origin, the individual, in seeking his own advantage, works also for the good of others, and the interests of each and all are in perfect harmony.

The Automatic Providence of Nature.—For example, in the creation of wealth, self-interest, according to the Physiocrats, induces every man to produce all he can, so that there is abundance for everybody. This is the basis of the law of supply and demand, which automatically gives people what

they want, provided that they have something to give in exchange. Production and exchange, therefore, if let alone, will provide people with the necessities and comforts of life better than any system of rates, regulations and restrictions that could possibly be devised.

The Protest Justified.—The economists and political writers of these days may have over-stressed liberty and natural rights as compared with justice and duty, but they were largely justified in their attack on the state interference of their day, which frequently produced results the very opposite of those intended. Thus the old poor laws, in granting indiscriminate charity, multiplied paupers, the laws against usury increased the rate of interest, the chartered monopolies restricted trade; the Navigation Acts made rebels of loyal colonists; and the corn laws protected the landowners at the expense of the merchants and manufacturers.

Glorification of Freedom.—So annoying and injurious was governmental control, and so alluring the prospects of economic freedom, that many a writer and orator of those days grew eloquent in praise of freedom, painting a glowing picture of a new ideal world of freemen, in which people of every occupation, seeking their own interests, would be working for the good of all, as though guided by an unseen hand. Thus, there would be perfect harmony within the state; and, as the world came to understand and obey the law of nature, international prosperity and peace would be established on an enduring basis. Evidently, the economists were quite as optimistic and utopian as the socialists of their day and generation. •

New Evils and New Regulations.—But perfect harmony seems to be impossible in the precept state of human nature, and it seems equally impossible to escape from some degree of social control and restraint. So, while the old restrictions were being removed, new regulations were being passed to meet

the new conditions brought about by the Industrial Revolution.

Shady Side of the Industrial Revolution.—As the new machines for spinning, weaving and other industries were introduced, workers moved to the towns, where new evils developed or became conspicuous. There was great overcrowding in insanitary factories and tenements, gangs of children were taken from the poorhouses and compelled to work long hours, in slavery, almost, women were working in mines as beasts of burden, there was lack of protection against accidents and occupational diseases, old ships were heavily insured and sent to sea in the hope that they would be lost, fraudulent companies were promoted, and other defects of free competition came to light.

Modern Social-Economic Legislation.—Thus it became evident that economic freedom and enlightened self-interest could not remove all evil from the world, and that the power of the law was needed to protect the weak against the strong. So, in England, where the Industrial Revolution began, modern social legislation also had its beginning. In the year 1802, the first factory act was passed to protect the health and morals of pauper children in cotton factories.

After this, a long series of laws were passed in Great Britain, the United States and other industrial countries, to mitigate the evils of free competition and to lay down the rules under which it might be carried on. Thus we have laws requiring proper heating, lighting, ventilation and sanitation, protection against fire; removal of dust and noxious fumes; safety devices and other protection against dangerous machinery. Then, too, there are laws prohibiting the employment of young children; regulating the hours of women and children; regulating the hours of mine workers; requiring prompt payment of wages; providing proper compensation in case of accident. Doubtless

all of these laws are needed, and it is unfortunate that they are still imperfect and not more rigidly enforced.

Limits to the Power of the State.—Such protective laws as these, being largely negative in character, do not go very far in the way of improving the condition of the working class, and scarcely touch the problem of the distribution of wealth and income, yet many economists think that the state can do nothing more, and that further improvement must come, as in the past, from saving, investment and other phases of private initiative and enterprise. Thus the old distrust of the state still persists, which is not surprising, in view of the glaring inefficiency of many governmental undertakings.

Voluntary and Compulsory Reform.—However, some of the more positive proposals for economic improvement suggest the voluntary activity of individuals and associations, rather than the compulsory interference of the state. To such voluntary efforts the friends of economic liberty cannot well object, unless they oppose all forms of association, which they seldom, if ever, do. After all, the state is only one form of association and it is hard to see why a political association cannot carry on some economic activities as well as private individuals and, in some cases, better. And yet, a mixture of politics with business is very apt to pervert politics and to ruin business.

Proposed Reforms.—Notable among the proposals for economic improvement, chiefly designed to obtain greater justice in the distribution of wealth and income, are the following: profit-sharing, cooperation, industrial democracy, public regulation of wages and conditions of labor, restriction of immigration, public control of monopoly, public ownership, the single tax on land values, progressive taxation of incomes and inheritances, insurance, conservation and reclamation of nature and man, and, finally, a comprehensive system of education designed to help man to adapt himself to his environment and

to realize his highest ideals. This is a large program, which cannot be fully discussed here, yet a few brief notes may serve to indicate the nature of some of the proposals and their probable tendencies.

Profit Sharing.—Profit sharing is a scheme adopted in various forms by many employers, by which the employees receive, in addition to their regular wages, a portion of the net profits in the form of cash bonuses or shares of capital. The double aim of profit sharing is to unite the employers and employees in a common cause, and to bring about a more equitable division of business income. It is, of course, wholly voluntary on the part of both parties.

Criticism of Profit Sharing.—Profit sharing has been very successful in some cases, but it has not been widely adopted, and its prospects for the future are not bright. As a stimulus to efficient work it is not so good as high wages coupled with bonuses based on output. Frequently, employees dislike profit sharing as savoring of paternalism. Also, it is apt to cause trouble between employers and employees, as profits may be high or low, or there may be none at all, and nobody knows what a fair distribution of profits is. Business men, who take all the risk and responsibility of business, usually feel that the profits belong to them; and if they share with their employees, they think that they do it as a favor rather than as an act of justice. In fact, there is no more reason for giving profits to employees in the form of higher wages than for giving them to the consumers in the form of lower prices.

Two Kinds of Coöperation.—Coöperation is of two kinds: producers' and consumers' coöperation. Producers' coöperation, such as a coöperative factory or store owned and operated by the workers, is rare and has seldom been successful. Producers' coöperation owned and managed by groups of farmers and other business men, such as coöperative dairies,

elevators, loan banks, and fruit growers' associations, have been more successful, although they have troubles of their own.

Consumers' Cooperation.—The cooperative store is the most successful of all forms of cooperation, especially in Great Britain, where it originated with the Rochdale Pioneers, a group of poor weavers, in the year 1844. In the year 1914, there were in Great Britain 1385 cooperative societies, representing over a fourth of the families in the country, and their annual turnover was \$427,000,000, an average of \$140 per member. In Denmark, the cooperatives represent over a third of the population; in Switzerland, 29 per cent, in Germany, 12 per cent. However, consumers' coöperation has not been very successful in young and prosperous countries, such as the United States, Canada and Australia.

Success of Coöperation.—Consumers' cooperation helps the workingman by reducing his cost of living, for, although goods are sold at market prices, bonuses are distributed in proportion to purchases. Before the war, the average annual bonus per member in Great Britain was \$20, on the continent it was much less. One cause of the comparative failure of the cooperative store in this country is that American workers, as a class, are extravagant, and careless about small savings. Another cause is the roving disposition of our workers; and still another is the difficulty of obtaining competent managers at moderate salaries. Also, cooperative associations of every kind are seriously handicapped by having too many masters.

If coöperation were to become universal, as its enthusiastic advocates hope it will, it would bring about the coöperative commonwealth by orderly, peaceful means. However, it is not likely that coöperation will ever wholly displace private enterprise, although it may serve to check some of its abuses.

Industrial Democracy.—Industrial democracy, including collective bargaining and workers' participation in manage-

ment, has been put forward in recent years as a means by which employees may obtain higher wages, shorter hours, better conditions of labor, a voice in the management of business and, ultimately, a large share of the profits. In fact, some advocates of industrial democracy, like the celebrated English socialists, Sidney and Beatrice Webb, look forward to the time when the workers can wholly dispense with the private employer and carry on the railways, the mines, manufacturing, merchandising, farming and all other industries—thus obtaining for themselves, not merely wages, but the whole product of labor.

Collective Bargaining.—Collective bargaining, or negotiating with the employer through labor unions, gives the union workers a sort of monopoly in the labor market, especially when they can keep the non-union workers from competing with them. Unquestionably, many unions, such as the railway brotherhoods, miners, printers and building trades, have forced their employers to pay more than competitive wages, although, in so doing, they have frequently caused prices to rise, hindered the development of business and thus reduced the demand for labor. Also, by increasing the cost of living, they have injured themselves, taking out of one pocket part, at least, of what they have put into the other.

Power of Union Labor.—As to the labor market as a whole, unionism seems to have injured, rather than benefited, the non-union worker, by keeping him out of the skilled trades and by increasing his cost of living. For example, the great railway brotherhoods of locomotive engineers, firemen, conductors and trainmen have done little or nothing for the sectionmen and other unorganized railway workers. On the contrary, they have made it difficult for them to obtain higher wages, by taking a large share of the railway revenue for themselves, and they have compelled the railways to make the general public pay the price in higher freight and passenger rates.

It is often said that labor unionism could do far more if all the workers were unionized; but it is probable that they could do less, as there would then be no monopoly of labor. Inasmuch as wages form the greater part of the expenses of production, as fast as wages were pushed up the cost of living would rise, and the wage earner, though getting more money all the time, could buy no more goods and services than he did before. In other words, a general labor monopoly would be no monopoly at all, and the unions would be like a man trying to lift himself by his boot straps. However, inasmuch as many consumers are not wage earners, the working class might gain, in rising wages, more than they lost in the increasing cost of living.

Shop Committees and Industrial Councils.—As to the workers taking part in the management of business, whether by shop committees, or workers' parliaments, or by actual representation on the directorate, it may be hoped that such methods will do much toward bringing employers and employees to a better understanding of their different points of view, and better coöperation in their common aims. At the present time, such coöperation seems to be useful mainly in the determination of wages, hours and conditions of labor, but it may be that it will extend, in the course of time, to participation in the broader questions of business policy, organization, selling, finance and all that—of which most wage earners now know little and care less.

Ownership and Management.—But it is clear to most business men, if not to most labor leaders, that the wage earners of the United States are not yet ready for any large measure of industrial democracy, and will not be until they participate to some extent in the ownership of the concerns in which they work. So long as business is carried on for profit, ownership and management must go together, and participation

in management by people who have no stake in the business is likely to make trouble for all concerned.

Public Regulation of Wages.—Public regulation of wages, hours and conditions of labor, as found in New Zealand and Australia and, to a less extent, in Great Britain and the United States, is recommended as a substitute for collective bargaining and a cure for strikes. In New Zealand, wages in most industries are fixed by the Arbitration Court, in Australia, by arbitration courts and wages boards. Many of our states have laws fixing minimum wages for women, and in Great Britain public authority fixes minimum wages in certain industries for both men and women.

The Kansas Industrial Act.—The Kansas Industrial Act, while recognizing collective bargaining, prohibits interference with the continuous and efficient operation of mines, railways, manufacture of food and clothing and other industries "affected with a public interest." The Act also provides for a Court of Industrial Relations to investigate controversies in such industries and to establish reasonable wages, hours and conditions of labor, so that labor may be fairly treated and capital may "receive at all times a fair rate of return to the owners thereof." However, the recent decision of the United States Supreme Court, in the *Charles Wolff Packing Company* case, declares the regulation of wages provided by the Act in conflict with the Fourteenth Amendment, and thus practically puts an end to this interesting experiment.

The Minimum Wage.—Much was expected of minimum wage laws when they were first passed; but it has been found that courts and boards cannot fix wages much above the competitive level without seriously interfering with business and throwing many people out of employment. If they consider the employers' interests, as they must, they cannot make them pay more than business can bear; therefore, wages, even under

public regulation, are mainly fixed by the under-currents of supply and demand. Besides, the labor unions of the United States and Great Britain are opposed to public regulation of wages; those of Australia and New Zealand are none too friendly to it; and it is hard to enforce such laws in face of the determined opposition of the wage earners.

Public Control of Monopolies.—Public control of monopolistic businesses, such as municipal tramways and water companies, telegraph and telephone companies, and railways, state and interstate, doubtless tends to prevent those corporations from charging all that the traffic will bear, and to limit the concentration of wealth. However, some of the effects which the early economists feared are seen in this sort of public regulation, which often goes so far as to discourage investment by reducing profits below a reasonable return. The fact that few new railways have been built in the United States in recent years, and the serious shortage of rolling stock, is probably due, in large measure, to the dead hand of public control. Also, inasmuch as we cannot well go back to unregulated private ownership in the case of monopolistic business, the comparative failure of public regulation has led many people to believe that it is but a step toward public ownership.

Public Ownership.—Public ownership does, of course, prevent the accumulation of private fortunes in the carrying on of "public utilities," and yet it is a question whether more is gained than lost by the change. Certainly, the experiments that have been tried in various countries have not been very encouraging. It is found, usually, that public business is far less efficient than private business, and that, when all items of expense are counted, state enterprises cannot sell at lower prices nor pay higher wages except by incurring deficits, which must be made up out of the pockets of the taxpayers.

Borrowing for State Enterprises.—State enterprises sel-

dom accumulate surpluses to be used in improvements and additions, but rather borrow new funds from private capitalists—a policy which would have to be abandoned if the government were to take over all the means of productions, as the socialists desire. Moreover, under such a system the workers would have less liberty than they have now, for they would be, as public servants, under strict control, in what Hilaire Belloc has well called the “servile state.”

Progress and Poverty.—Henry George, in his *Progress and Poverty* (1879), claims that poverty is due to the private ownership of land, in that ground rent tends to absorb the whole net product of industry, leaving only competitive profits to business men and a bare living to the wage earners. He says that, if all taxes were removed from improvements, goods, foreign trade, incomes and every other source of revenue, and placed upon the annual site value of land, business would be greatly encouraged, all the governmental bodies would have plenty of revenue, and poverty would presently disappear.

Unquestionably, Henry George is mistaken in thinking that private ownership of land is the chief cause of poverty; he overestimates the proportion of income going to rent; and he underestimates the importance of private property in land in promoting the settlement and development of a country.

Ground Rent as Part of National Income.—Dr. King's figures show that, in the year 1910, about 8 per cent of the national income was taken in rent; and Mr. W. H. Mallock estimates ground rent in England as barely 4 per cent of the national income. Evidently, the confiscation of so small a part of the national income would be no cure for poverty, and would be insufficient for the expenses of the national, state and local governments, while it might weaken the basis of credit and interfere seriously with both rural and urban improvement, or development. However, the single-taxers have done a public

service in calling attention to abuses connected with the private ownership of land and in showing that taxes should, in so far as possible, fall upon surplus income.

No Panacea to Be Found.—One might examine all the other chief proposals for economic improvement, and it would be found that, while most of them have more or less of merit, none are a cure for all the ills of life. Probably education, physical, mental and moral, is the best single remedy, but not even that can make the earth a paradise, and to claim that it can is sheer utopianism and quackery. And yet, we must think and dream of better things, for only by so doing can we begin to realize the ideal of justice between man and man.

Justice as an Ideal.—Justice, being an ideal, ever recedes as we approach it, even as, in climbing mountains, one hill rises above and beyond another. It is, first of all, as Plato said, harmony within the soul of man, but such harmony or balance is seldom, if ever, realized within a single soul. Secondly, it is harmony within the family, the tribe or the nation, but discord and conflict are found in all of these groups, and are carried, at times, to the point of civil war. Finally, we have the ideal of international justice, but the World War has shown how far we are from that.

Opinion of Sir Thomas More.—So, without surrendering our ideals or condoning injustice, it is well to understand that the mills of the gods grind slowly, that improvement must be built upon the foundation of past achievement; that law and justice come from the conflict of interests and ideals; that reason is a better guide than passion and prejudice; and that improvement in social structure and individual character must go hand in hand. As Sir Thomas More, the author of *Utopia*, truly said: "All things will not be well until all men are good, which, I think, will not be this long time."

SUPPLEMENTARY READINGS

TAUSSIG Chs 56-61

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QUESTIONS AND TOPICS

- 1 What were the Navigation Acts?
- 2 Who were the Physiocrats?
- 3 What was their theory of natural liberty?
- 4 Will nature regulate everything, if let alone?
- 5 What was the shady side of the Industrial Revolution?
- 6 Make a list of the labor laws of your state
- 7 Should a business man share his profits with his employees?
- 8 Who were the Rochdale Pioneers?
9. Why has the cooperative store been more successful in Europe than in America?
10. What have the California fruit growers' associations accomplished?
11. What of cooperative elevators and dairies?

12. Should employees take part in the management of the business in which they work? If so, to what extent?
13. What is collective bargaining?
14. Has a strikebreaker a right to work?
15. What are shop committees?
16. Can employees become owners or proprietors of the business in which they work?
17. How should a wage earner invest his savings?
18. Tell about the Kansas Industrial Act
19. Should strikes be permitted in essential industries?
20. What is the minimum wage? Is there a minimum wage law in your state?
21. Should all workers receive a living wage?
22. Is there any single remedy for economic inequality?
23. Which of the proposed reforms seem to you most promising? Why?

CHAPTER XXIV

WEALTH AND WELL-BEING

Profit and Loss of Material Civilization.—In these days of doubt and social introspection, when men are taking stock of western civilization, to see whether it shows a balance of profit over loss, it may be well to review our elementary economics and to consider whether there is any solid basis for the naive assumption of most economists and some philosophers, that wealth and well-being are closely, if not inseparably, connected.

Economics is the study of human life in relation to wealth and income, and, as such, it has to do with all the commodities and services which men desire and for which they are willing to pay. Strictly speaking, there are two kinds of wealth—persons and things; and two kinds of services—personal services and material services; but in a society of freemen we seldom think of persons as wealth, but rather as owning wealth and receiving income.

Relation of Wealth to Well-Being.—This indicates the common, though somewhat elusive distinction between wealth and well-being. Wealth consists of food, clothing, shelter and goods of every other kind; well-being is the satisfaction which a person obtains from the ownership and use of such goods. Wealth is something objective, to which a person stands in the relation of owner or user; well-being is subjective, within the mind. A person's house is wealth; the satisfaction or enjoyment of living in it is a phase of well-being. Food is wealth;

the pleasure of eating, as all healthy people will agree, is no small part of human well-being.

The two words have the same derivation, which shows that people have always observed or assumed a close connection between wealth, on the one hand, and welfare, well-being or weal, on the other. Yet wealth is only the means, while well-being is the end or purpose for which wealth exists. It is possible to have wealth without well-being, as when a rich man cannot enjoy his wealth. It is equally possible to have well-being without wealth, as when a poor man enjoys the blessings of health, friendship and love, which, very often, money cannot buy.

Other Sources of Happiness.—Wealth, therefore, is not the only source of well-being or happiness. The beasts seem to enjoy life, and the lowest savages have all the pleasures of the senses and some of the higher satisfactions as well. In fact, when civilized man associates with savages, he is apt to think them far more wretched than they really are, as he is unused to their ways of living and is tormented by smoke, dirt, vermin and other miseries, which, apparently, are of slight annoyance to them. On the other hand, savages are often miserable when they try to live in civilized fashion, and may, literally, be civilized to death.

Ascent of Man.—And yet, as we view the panorama of human progress through all the stages from savagery to civilization, we cannot but feel that man has been gradually ascending to a higher plane of thought, feeling and action, and enjoying a richer, fuller and happier life. But even if he were less happy than the beasts, because of the divine discontent which urges him on, he would not be sorry to have lived; for, as John Stuart Mill has well said, "It is better to be a human being dissatisfied than a pig satisfied."

Material Progress.—Material progress, like all things

human, has its shady side, but it has brought many gifts in its train. For one thing, increasing prosperity has greatly reduced the death rate and prolonged the span of life, making possible an enormous growth of the world's population, which, if human life has any value at all, must be reckoned to its credit. The population of Europe, in the year 1800, was not over 170,000,000, to-day it is about 420,000,000, while in the same time the population of the world has increased from something like 600,000,000 to more than 1,700,000,000. Population, as Malthus said, tends to increase faster than the means of subsistence, but there are counteracting tendencies and, in the past century, at least, the means of subsistence have increased at a much faster rate, thus bringing greater prosperity to most, if not all, peoples.

A Contrast.—And when we consider the comforts and luxuries of modern life, especially in the western world, it is not hard to believe that we are much happier than our fathers of any former age. We enjoy a variety of nourishing and well-cooked food, our primitive ancestors devoured raw meat and roots. We are, literally, clothed in purple and fine linen, they went naked or clad in skins. We live in pleasant homes, they crouched in cheerless caves or scanty windbreaks. We have a happy childhood and a comfortable old age, they often destroyed their children and turned their parents out to die. We dwell in peace and security; they lived in fear of wild animals and ferocious men. We enjoy a large measure of personal independence and private right; they fought in an arena where might was right and brute force was law.

Expansion of Human Wants.—It is, in fact, hard to mention any of the good things of modern life which are not by-products of material prosperity, for, as people were gradually relieved from the struggle for bare existence and subsistence, they began to think not merely of living, but of enjoying life.

Human wants are unlimited and, having food, clothing and shelter, people gradually desired and obtained better food, better clothing, better shelter, with more and better things of every other kind. Nor were they content with material things alone; for, having intellectual, æsthetic and moral instincts, when the cravings of the animal nature were satisfied they hungered and thirsted for the true, the beautiful and the good.

Modern Times.—Philosophy is of early origin, and the ancients knew something of mathematics and astronomy, but chemistry, physics and biology are for the most part the creation of the western world and closely connected with the Industrial Revolution. Science has vastly broadened the mental horizon, has solved many of the puzzles of the universe, and has become the corner-stone of all the useful arts—agriculture, mining, engineering, manufacturing, transportation, communication, medicine, surgery, hygiene, and the rest—which have made such notable contributions to human wealth and weal.

The Fine Arts.—Nor is this all, for, as material wealth increases, there is an increasing appreciation and cultivation of the fine arts—music, painting, sculpture, architecture, literature, dramatics—which have done so much to beautify and enrich our life. Love of beauty has been in the human soul since man was man, but for long ages it was latent, submerged and starved, until, as the raw savage soil was mellowed by prosperity, it blossomed into flower.

Moral Progress.—Finally, and this is the crowning achievement of material progress—it has delivered man from the brutal struggle for existence, and has enabled him to cultivate his distinctively human qualities. Thus, under the ameliorating influence of prosperity and peace, the social virtues of parental and filial love, friendship, kindness, generosity, magnanimity, truth, chivalry, and good manners have flourished as never before; while the old-time cruelty and tyranny have

hidden themselves, as though ashamed to be seen in civilized society.

It is no mere accident that the rise of modern humanitarianism coincides with the Industrial Revolution, that the most prosperous nations have been at the head of that movement; and that the nineteenth century has seen the extension of political liberty, the abolition of slavery, the emancipation of women, the improvement of prisons, greater solicitude for the sick and poor, a vast improvement in the condition of the working class, and a growing desire for the abolition of war. True, all of these improvements follow the teachings of Christ; but even Christianity cannot and does not have its full effect in an unfavorable environment. In brief, poverty tends to repress the finer qualities of the human soul, while material prosperity gives them a chance to grow.

Material Basis of Civilization.—It is evident, then, that material wealth is the foundation upon which men build the superstructure of a great and noble civilization. As we look back in history we find no great civilization without this material basis, although, in some cases, the foundation may have existed without the superstructure. In ancient times, Corinth was much inferior to Athens in art, literature and philosophy; and Carthage, another wealthy commercial center, may have been inferior to Rome, although that is by no means certain. Similarly, in our own day, London claims superiority over Liverpool, Edinburgh over Glasgow, Paris over Marseilles, Berlin over Hamburg, Boston over Chicago; yet all of these great and wealthy cities have contributed much to the higher things of life, and such invidious comparisons are both odious and unfair.

Democracy and Art.—Ancient art and literature, it is often said, were far superior to our own; but if that is true, it was largely because ancient civilization was based upon slavery,

whereas modern civilization is more democratic and rests upon free labor. In achieving democracy and free labor we have sacrificed something of art and literature. Formerly, art was created for a small number of educated people, nowadays it is too often made for the multitude, who are not yet able to appreciate the higher values. Pot-boilers and best sellers are seldom works of art, though they may give pleasure to millions.

To judge a civilization by the measure of its art and literature alone is not altogether just, as it seems to imply that man exists for the sake of art, not art for the sake of man. Ancient civilization exalted art, but it degraded man; modern civilization has tended to exalt man, and in so doing, it has to some extent degraded art.

This is particularly true of new and rich countries, such as the United States and the British Dominions, where people have been so busy exploiting their vast natural resources that they have had little time or energy for other things. However, this deficiency corrects itself in the course of time, and we find the children and grandchildren of the pioneers living on a higher plane.

Utopia Realized.—All things considered, the people of these new countries are the most prosperous that the world has seen, and if they are not the most happy it must be because they do not know how to use their wealth. Our rich people live more luxuriously than the princes of the Middle Ages, our middle class have more of the comforts of life than their nobility; and our unskilled laborers have better food, clothing and shelter than most peasants, merchants and craftsmen of those days. Even our unemployed manage to exist, and our defectives and delinquents are well cared for at public expense.

Truly, if Plato, More and other philosophers who have written about ideal states could visit the New World in our day, they might well think that the Republics and Utopias of their

dreams had actually arrived. Even in Europe, before the war, prosperity was greater and more general than ever before, although many people, thinking of the evils rather than the benefits of the economic system, did not realize how fortunate they were, nor how easily their prosperity might be taken away.

Perils of Modern Civilization.—Certainly, our modern civilization, with all its material and immaterial signs of wealth and well-being, has an appearance of stability, security and permanence. And yet, as we remember the fate of Egypt and Assyria, Babylonia and Phœnicia, Greece and Rome, we have some cause to fear that our civilization also may pass away, and that we may relapse into the barbarism and savagery whence we came. At least, the events of the past few years have clearly shown that, with all our strength, we have our points of weakness, even as the great Achilles was vulnerable in his heel.

Exhaustion of Resources —In the first place, as the population and wealth of the world increase, there is danger that its resources may be reduced, if not exhausted. Our forests have been ruthlessly cut and burned, our natural gas is almost gone, our oil deposits may be exhausted in this generation; our deposits of iron, copper, lead and other minerals are being depleted, our beds of coal are by no means unlimited, and even the fertility of the soil is being reduced. No general shortage is likely to occur in our day, but, if economic progress goes on in the future as in the past century, the time may come when there will be comparative scarcity and poverty, and people will look back to our day as to the primitive Eden or the fabled Golden Age.

Unequal Distribution of Wealth.—In the second place, although the industrial system of the western world maintains its vast and increasing population, there is great inequality in the distribution of wealth and income, and growing discontent

among the relatively poor. Inequality in distribution is no new thing, and seems to be diminishing rather than increasing; but the wage earners of every progressive country, under the influence of democracy, education and higher standards of living, are developing new ideals and ambitions, demanding more of the necessities and comforts of life, and murmuring against the present social order because it does not provide for the people as it should

It may be that the present social order, with all its faults, is better than any possible alternative, and that the case against capitalism is woefully weak, and yet, in view of the many counts in the indictment, and the fierce invective of the prosecution, many people are convinced that the defendant is guilty, and that the passive property owner, if not the active business man, is nothing but an exploiter and a parasite. It is not, therefore, the economic theories of Karl Marx that threaten the present social order, but his passionate denunciation of capitalism and his determination to lead the people out of Egypt, through the wilderness, into the promised land

Is Civilization Decaying?—Thus, Sidney and Beatrice Webb, in their recent book, *The Decay of Capitalist Civilization*, draw a sharp and scornful contrast between the "moral strength of socialism" and the cringing weakness of capitalism, pilloried stark naked before the world. So they say: "The theoretic mistakes of Marx are as patent nowadays as the mistakes of Moses, but nobody who has ever read the historical chapters of *Das Kapital* can ever again fall under the illusion that capitalists, as such, are morally respectable."

Mr. R. H. Tawney, in *The Acquisitive Society*, takes much the same ground, holding that the owner of property, as such, performs no social function, and therefore will have no place in the coming functional society.

Menace of Revolution.—These and other intellectual

socialists and reformers may repudiate Marx and profess evolutionary revolutionism, but in joining the hue and cry against capitalism, they ally themselves with a revolutionary rabble, which they can incite, but cannot control. Therefore, in the day of revolution, their plans and specifications for the new social order may be thrown into the rubbish heap with all the other relics of capitalistic civilization. If so, the revolution may be destructive and not at all constructive; in which case a large part of the world's population will die of starvation and pestilence. Thus Bertrand Russell, himself a socialist, in view of what Eugene V. Debs calls the "sublime experiment in Russia," says that the social revolution might be a great disaster in which "civilization might go under for a thousand years."

Effects of War.—In the third place, there are serious antagonisms between nations, which, aggravated by the late war, might lead to another and more desperate conflict, and the final collapse of our industrial system. From the close of the French wars in 1815 to the outbreak of the World War in 1914, the western world had practically a century of peace; for not even the Crimean War, the American Civil War, nor the Franco-Prussian War seriously interfered with international trade or threatened the stability of the social-economic order. During this period, the great industrial centers of western Europe grew and prospered, obtaining their food supplies from the newer countries and sending their manufactured goods in exchange; while all the countries were being united in the bonds of commerce, exchanging both goods and ideas, learning to understand and respect one another, and moving, apparently, in the direction of permanent peace and the coming federation of the world.

When the war broke out, the international network of commerce was broken, and has not since been fully repaired—hence

the industrial disorder of Europe, which has so seriously affected America and all other countries that have had dealings with Europe. Peace, therefore, is the first condition of international trade and world-wide prosperity, enabling every country to obtain the material and spiritual products of every other country in exchange for its own. Without it, every country must live in isolation upon its own resources, and, sooner or later, there is likely to be a fierce struggle for the choice places of the earth.

Nervous Strain of Modern Life.—In the fourth place, it is by no means certain that the human constitution can endure the intensity of modern life. Man is by nature an outdoor animal, and continual work at high pressure in mines, shops, and offices is irksome to him and a strain upon his nerves—witness the frequent breakdown of men in middle life and the increase of insanity and other nervous disorders.

Furthermore, the leaders in our over-busy world have relatively few children growing up to take their places, whereas people of less intelligence multiply at a faster rate, until, as MacDougal puts it, they also begin to climb the social ladder toward success and extinction. Therefore, as the torch-bearers of our complex and ever-changing civilization die and are not replaced, our social-economic system may collapse for lack of leadership.

Recuperative Power of Society.—These are not all the weak points in our present social order, but they may serve to indicate the dangers which menace it, and to explain the views of those who say that it is on the point of breaking down, or that it has already broken down. Such prophets have been predicting the end of the capitalistic world for a long time—whether by crisis, war, or revolution—and they have invariably under-estimated the recuperative power of industrial society, which, as in the case of a damaged

bee-hive or ant-hill, tends to repair and rebuild the broken structure along the old familiar lines. Even in Russia, capitalism seems to be coming back; in Germany it is still going on and preparing for better days to come, while England and America require only the rehabilitation of continental Europe to set them on their feet again. Unquestionably, the old economic order has had a terrible shock, and may still be in danger of complete collapse, but it seems to be pulling itself together again and to be adapting itself to the new conditions, even at its weakest points.

Population Increasing More Slowly.—For one thing, the world's population is likely to increase at a slower rate in the future than during the past century; in which case the resources of the earth may last for a long time to come. Already, the population of France is stationary, as the birth rate and the death rate are practically equal, and the population of most other countries is increasing at a slower rate than formerly. There is, of course, a danger of decadence in this, and it is to be hoped that, as the knowledge of eugenics becomes widespread, the population will be recruited from the better rather than the inferior classes.

Conservatism.—Then, too, the newer as well as the older countries are giving increasing attention to all forms of conservation—preservation and improvement of the soil, forests, and fisheries; reclamation of land by drainage and irrigation; improvement of plants and animals; increasing use of sea-food; improvement in mining; economy in the use of coal, iron, and other minerals. Also, there is reason to hope that scientists will discover new and better ways of utilizing the power of rivers and tides and the heat of the sun, and that, possibly, they may be able to tap other sources of energy and transmit the power at low cost from place to place, long before we actually suffer from lack of fuel. In these and other ways,

science may be able to exploit and circumvent nature more effectively than heretofore, and compel her to provide more bountifully for the wants of man.

Settlement of Industrial Disputes.—Again, in regard to industrial disputes, especially in mining, transportation, and other essential industries, we may expect that employers and employees, backed by public opinion and governmental bodies, will devise ways and means of settling their differences on some rational basis, without breaking up the industrial system by which they live. As in the fable of the body and its rebellious members, both employers and employees are realizing more and more that they have much in common, that their points of difference are relatively unimportant, and that they must work together harmoniously in the creation of the joint product.

***Also, as business research and other forms of publicity do their work, it is coming to be understood that business men are the agents of the community as a whole, that industrial disputes are carried on between the people as workers, and the same people as consumers, and that, in striking against their employers, the wage earners are, in fact, fighting against themselves. Of course, the poor have more to gain as wage earners than they have to lose as consumers, whereas the rich stand to lose as consumers more than they can gain as workers, so that, in the last analysis, industrial disputes are quarrels between the relatively rich and the relatively poor about the distribution of wealth and income.

Diffusion of Wealth.—Many earnest thinkers see no outcome to this class struggle other than state socialism, syndicalism, guild socialism, or universal cooperation, but in view of the impracticability of all of these proposals, the situation demands compromise between the conflicting interests in order to preserve what is good in the present industrial order, and

to improve, where improvement is possible. To that end, nothing could be better than a widespread diffusion of wealth, brought about, not by confiscation and doles, but by the efforts and sacrifices of those who have the strength and the will to work and save.

This is no palliative, but a drastic remedy for a serious emergency, which many weaklings will refuse. But if both rich and poor have the courage to apply it by precept and example; a large majority of our people can become proprietors as well as wage earners, no longer dependent on a single source of income—the labor of hand and brain. Then our industrial order, supported by the strongest and best, will have a stability which it has never had before, and will not allow itself to be sacrificed to a minority of idlers and wasters

Prospects of World Peace.—As to the predicted Armageddon, the nations of the world understand, as never before, the futility and the terrible menace of war, and are trying to put an end to it, or at least to limit its scope and its destructive effects. In the past, war may have contributed to the improvement of the human race through the elimination of the unfit; but in this age of philanthropy and science it should be possible to find a substitute for war. If this can be done, our modern civilization, based not on the exploitation of men but on the exploitation of the earth, with peaceful production and exchange, may continue for a long time.

Racial Improvement.—Finally, and most serious of all, is the threatened deterioration of the human race; for modern industrialism is in some respects unfavorable to human life. In other respects, however, it is highly favorable, and the human animal seems to be adapting itself to it fairly well, even in the cities where, frequently, conditions are better than in most country districts. And when, to the increasing supply of food and other necessities, are added shorter hours of work,

better working conditions, recreation, outdoor life and, in general, more natural ways of living, together with increasing application of the principles of eugenics, it may be found that prosperity will do more for the improvement of the race than adversity has ever done. At any rate, the case for degeneracy may be dismissed with a Scotch verdict, and the collapse of civilization from this cause is by no means imminent.

The Art of Living.—Assuming, therefore, that our social-economic order will presently recover its normal balance and take a new lease of life, we shall be less concerned about impending revolution and future utopias, and more about our two great practical problems first, the art of getting a living; second, the art of living and living well. Perhaps, in our progressive western world, we have given too much attention to the accumulation of wealth and too little to the proper using of it; so that, although we are rich in material things, we are relatively poor in spiritual values, which yield the highest and most permanent satisfactions

Wealth a Means to Higher Ends.—Like the newly rich, we have not yet learned that wealth is not the chief end of life, but a means to other and higher ends. In the order of time, wealth comes before the using of it; but in the order of importance, the using of wealth stands first as the end for which the means exist. Rich men and nations who seek wealth for its own sake are like King Midas, who was dying of hunger and thirst, because everything he touched had turned to gold. No wonder that he became a monumental example of human folly, and that it was whispered of him, in regard to his appreciation of music, "King Midas has asses' ears."

Happiness Elusive.—But even when, realizing the fallacy of Midas, we try to use our wealth to the best advantage, we find that our wants increase faster than our power to satisfy them, and that happiness ever recedes as we pursue it, like the

will-o'-the-wisp or the fabled pot of gold at the foot of the rainbow. Because of this fact, some philosophers have said that happiness is unattainable, while others have averred that civilized nations are as miserable as savages, and that the rich are no happier than the poor.

Control and Direction of Desire.—Evidently, when people say that happiness is impossible, they are thinking of the perfect bliss of paradise, rather than the ordinary joys of living in this imperfect world, which, for the strong and healthy, far outweigh the sorrows they have to bear. As the Stoics pointed out long ago, it is not necessary to happiness that every want should be satisfied. On the contrary, the good man can be happy by limiting and controlling his desires, because his well-being is not found chiefly in the satisfaction of appetite, but in the pleasures of the intellect and the quiet joy of the virtuous life. Only fools are tormented by unsatisfied desire; the wise take what the gods send with a thankful heart.

Happiness of Rich and Poor.—But when we say that the rich are no happier than the poor, we fail to distinguish between the crying need for food, clothing, shelter, warmth, and the other necessities of life, which afflicts the poor, and the far less urgent desire of the rich for the comforts and luxuries of life—fruit for breakfast, a new suit of clothes, a sleeping porch, a summer cottage, a motor car. Certainly, the rich as a class are happier than the poor; and were it not for the perils of confiscation and pauperization, it would be right to take from the rich and give to the poor and thus increase the sum of human happiness.

However, the difference in this regard between civilized men and savages, rich and poor, is not so great as may appear from outward circumstances; and one might almost say with that modern Stoic, Anatole France: "The poor man who has no

desires possesses the greatest of riches: he possesses himself. The rich man who desires something is only a wretched slave."

Happiness a By-Product of Activity.—The truth is, that happiness, for both rich and poor, is elusive and intangible so long as men pursue and try to seize it, when they turn away and attend to the ordinary affairs of life, happiness follows and abides with them. In the language of economics, happiness is a by-product of human activity, physical and mental—not the chief end of man, but so closely connected with it as to lend it strong support and to point out the way to a larger and fuller life, through the development of human personality.

As we look back along the rough path by which humanity has ascended to the plane of wealth and well-being where we now stand, we see that the material and spiritual have gone hand in hand, as body and soul, the one incomplete and ineffective without the other. And as we look forward to the future, uncertain as it is, we have every reason to hope that the same auspicious union will enable us to surmount the difficulties that are to come, and lead us on to higher and better things.

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QUESTIONS AND TOPICS

1. What is economics?
2. Distinguish between wealth and welfare
3. Are civilized men happier than savages? How can we know, this?
4. Human wants are unlimited. Explain
5. Is civilization possible without wealth?
6. Does wealth tend to improve moral character?
7. Can we say that one civilization is higher than another? What does that mean?
8. Show the relation between wealth and art
9. Is our civilization likely to pass away, like those of ancient times?
10. Do industrial disputes threaten to disrupt society?
11. Are we likely to have another world war?
12. Does modern life put too great a strain upon the nerves?
13. Is our civilization breaking down? Who says it is?
14. Will the resources of the earth be exhausted in the course of time?
15. Show the need for conservation
16. May we expect that science will discover new sources of power?
17. What was the fallacy of Midas?
18. Are the rich happier than the poor?
19. Are some of the poor happier than some of the rich?
20. What was the Stoic's key to a happier life?

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